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THE AREA OF COLLECTIVE BARGAINING

MANY of the most important decisions on American policies of labor relations are being made, as it were, by default. Under the incessant pressure of war requirements there have been unprecedented developments in the position of trade unionism, in policies pertaining to wages, and in the forms, practices and objectives of collective bargaining. Our numerous war labor agencies, overwhelmed by tens of thousands of complaints, grievances and demands, have directed their policies toward the vital ends of keeping the peace in industry and preventing interruptions to war production. In the process there has been little time and even less disposition to discuss underlying issues, to appraise alternative courses of action, and to estimate the influence of war policies on the trend of events after the war.

Among these issues, no one requires more careful consideration and wiser settlement than the determination of the area of joint negotiation between employers and unions and of the collective contract or agreement with which negotiations are from time to time concluded. Choice of the appropriate bargaining unit, to use the technical term, has become and will for many years remain the leading and most difficult problem of our labor relations. It is a problem invariably associated with the growth of organized labor in modern times and the form of organization which unions typically elect to assume.

Union contracts in force in American industry today are, in terms of the boundaries within which they apply, of the great-

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est variety. Some are limited to all of the employees of a single plant, or to a group of craftsmen within a plant. Some apply to a group of plants under the same ownership within a specified and restricted region. Some are company contracts, covering all of the plants of a company wherever located. Some are regional contracts applying to all the plants of an industry, regardless of ownership, within a given region. Some are national, embracing the whole of an industry, and are known as industry-wide collective contracts or agreements.

In all but a few cases, the objective of organized labor in the United States and other countries has been national collective bargaining and national contracts. Starting, as most unions do, with local organization and local bargaining, they endeavor as quickly as possible to extend the limits of their organization and their negotiations with employers. If the organization is successful and firmly established, the national union becomes the typical unit of union government and the national organization promptly aspires to deal with the employers of an industry on a national basis, rather than on a plant, employer, local or regional basis. From the time a labor organization is founded, union strategy and policy are directed toward this end.

Only where industries are essentially local in character do unions deviate from this course. Hence in the building industry, in retail trade, and in a variety of service occupations, bargaining is predominantly local, the labor agreement is restricted to a locality, and the standards of wages and working conditions consummated by the agreement are, likewise, local. It is the fact, of course, that the local unions of employees in these industries and occupations are, like the great majority of all local unions, affiliated with national unions, such as the national unions of carpenters, retail clerks and building service employees. But in their economic policies, as well as in their internal government, this class of national unions tends to be sharply distinguished from the national unions which bargain nationally and in which the policies of local unions are subordinated to the authority of the national organization.

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The source of these differences in government and policy between the leading types of national labor organizations is to be found in the economic character of the industries with which unions do business. Industries, in which the competitive area is national and which operate under highly diverse economic conditions, sooner or later face highly centralized, national labor unions which seek to deal simultaneously with an industry as a whole instead of bargaining separately and independently with its constituent parts. Thus, in the long evolution of unionism and collective bargaining in the bituminous coal industry, the central aim of union policy has been to establish a strong national union and national standards of working conditions and wages. Similarly, in the recently organized steel and automobile industries, the relatively new unions of steel and automobile workers have been moving rapidly in the same direction.

The purpose of the labor policies associated with these developments is for most unions a practical and pressing one. It is to protect the high, or higher, standards achieved by a union in one locality from the competition of low, or lower, standards in another locality. In one after another industry, unions have been defeated or weakened by the movement of union plants to nonunion regions, or by the migration of union plants from one union locality to another where wages and other costs are more favorable, or, as in the soft coal industry, by the transfer of the coal business from Pennsylvania and Illinois to West Virginia and Kentucky. There have, of course, been many reasons besides labor costs for such shifts in the location of industry and in the flow of business. But the advantages of lower costs and prices, due to lower wage scales and less onerous and costly working rules, have always played an important, where they have not played a determining, rôle.

It is not surprising, therefore, that organized labor, whose basic policy the world over consists in raising all labor standards to ever higher levels and which universally resists the lowering of standards once they are won, should take whatever steps seem necessary and effective to meet the threat of regional competition. For this reason all unions claiming jurisdiction

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over the employees of such competitive industries proceed as soon as they are strong enough to do so to fight for nationally uniform scales of wages, schedules of hours, and systems of work rules. To make a policy of this kind effective and lasting, the national union must have succeeded in establishing full authority over its local unions to keep them from making concessions under the pressure of local conditions. It must, also, have persuaded the employers, with whom it deals, of the wisdom of uniform labor standards embodied in a master contract covering the entire industry.

Once a system of national bargaining and national contracts is established, all of the parties to it—the union, the employers and the government—come to regard it as a superior arrangement. For the union it has many advantages. Before long the dominance of the national over local unions is assured. The national office becomes the seat of accepted authority, where union policy is made and enforced. Disturbing local elements are subject to discipline by the central organization. The national treasury becomes a source of strength and stability. The activities of the union are unified. In the conduct of labor relations, the entire administration of bargaining and contract-making is made simpler and more convenient. In place of numerous negotiations with tens or hundreds of employers, the union now deals with a few spokesmen for the whole industry. When agreement is reached, its principal provisions apply throughout the industry and only minor questions remain for local settlement. Barring maladministration, accidents, or the effects of major economic changes, competition of lower standards is arrested or eliminated and the high union standards of wage rates, hours and rules are protected.

Many unionized employers, likewise, soon begin to feel that there are advantages to themselves in this method of bargaining. Like the union, they before long resent the competition of more favorably situated plants and employers and are willing to share with the union the responsibility of bringing them under control. They accept the union's argument that labor costs, except where they can be reduced by superior and more efficient management, should not be subject to competition.

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Hence labor standards, once they are fixed, must remain unchanged, unless or until they are revised by mutual consent for the entire industry. Like the unions, also, the employers are attracted by the sheer convenience of industry, as against local, bargaining, particularly since many employers in a strongly unionized industry consider themselves incapable of matching the union's bargaining power and are willing to surrender their interests to their more experienced and stronger fellow employers.

To the government these developments are particularly welcome. They are a sign that employers have finally accepted unions and collective bargaining and that labor relations have reached the most stable and highest stage in their evolution. As a party to the settlement of labor disputes and as the final arbiter in determining an increasing proportion of labor issues, the government, in common with employers and unions, is moved by the superior convenience and orderliness of the single negotiation and the single contract. If public agencies are to remain active participants in labor relations, they would prefer to do their job as expeditiously and neatly as possible. More than all else, the economic policy of nationally uniform and stable wages and labor standards, which this system of collective bargaining creates, meets with high favor in the eyes of governments which are already dedicated to strengthening economic control, centralizing economic authority, reducing inequalities in economic conditions, and stabilizing prices and their leading components.

Reasonable as the case for national bargaining and national contracts may seem, it raises difficult and fundamental questions of policy, as well as serious issues in the principles and practices of administration, which need to be considered and settled before a national policy of labor relations is finally decided. On the administrative side, it is strongly to be doubted that the transfer of responsibility from the individual employer to the industry for labor standards and the conduct of labor relations, which is a necessary consequence of industry-wide bargaining, is either wise or sound. In time, the employers' association, which under industry-wide arrangements bargains

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for the industry, becomes more and more divorced from the individual employer and the requirements of his business. The association itself becomes professionalized, by placing responsibility for negotiation into the hands of trained and expert negotiators. Although the professional negotiator is answerable to a committee of employers, it is inevitable that, as his tenure lengthens, his discretionary powers and capacity to make decisions should grow; for he takes the burden off employers, who are busy with other things, and the longer he is on the job the greater command he appears to have acquired over his functions. Dealing with the equally professional representatives of the union, both the employer and union negotiators have the common objective of getting the negotiations over with and arriving at a settlement. Like the arbitrator, the negotiator often finds it more important to bring matters to a conclusion than to dispose correctly of a knotty question.

Speaking for the whole of an industry, it is only natural that the industry's representative should speak more intelligently and more effectively for some employers than for others, or for some parts of the industry at the expense of other parts. For an industry is, in considerable measure, a product of definition, a statistical concept, a convenient census category. While the components of an industry have many features common to all of them, the problems and needs of the businesses, which are classified into an industry, are rarely identical. In the daily administration of employers' associations and their labor bargaining activities, it is to be expected that some employers fail to receive the hearing and understanding which their own problems demand. Consequently, their interests are sacrificed to the "common good". The decisions they would arrive at if they were on their own and were themselves assuming responsibility for the prosperity of their business and the welfare of their employees are compromised in the general interest. There is grave question whether the gain in efficiency, which is commonly attributed to expert bargaining, can compensate an employer for the whittling away of vital interests, which common sense, an intimate knowledge of the business, and a strong and

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direct sense of responsibility for the survival of the business would protect.

It is equally questionable whether industry-wide bargaining achieves the equality of bargaining power, which is assumed to be its greatest contribution to the proper working of collective bargaining. The benefits a national union derives from this scheme of things tend to make a union more unified in its economic objectives and more effective in attaining them than ever before. National bargaining, because of its very nature, promotes union unity and safeguards the most treasured of its gains. On the industry side, unity and greater bargaining power are, in large measure, matters of appearance, since, in achieving such unity as there is, the industry surrenders much of its vital interests and makes many concessions which large sections of the industry can ill afford to yield.

The fact of the matter is that once industry bargains replace employer bargains, the employers and the industry have lost the only effective check there is on excessive and arbitrary demands. Freed from the threat of unfavorable economic conditions, unions are in the position to hold on to the scales of wages they have previously won and to build the structure of shop rules and regulations which in the long run become so formidable a factor in the cost of doing business. Literal adherence to the policy of national uniformity in wages and working conditions results in removing from the influence of competitive forces many of the most important elements of labor costs, and the professed objectives of the policy are achieved. But as the number of industries persuaded to this type of bargaining increases, the economic area, within which necessary and often pressing adjustments to changing conditions are required, tends progressively to shrink.

Sooner or later the larger consequences of this policy begin to make themselves felt. The industry members of such joint bargaining arrangements grow accustomed to various ways of restraining competition. In return for rising, or "stable", wages, they ask only rising, or "stable", prices for their products. They are even willing to accept the usual restrictions of output, provided that they are uniformly applied throughout

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the industry and pay for themselves in higher prices. In short, a scheme of things which begins as a simple means of improving the methods of collective bargaining and achieving several of the familiar aims of trade unions flowers shortly into joint monopoly, in its most advanced and effective form.

These emerging features of current labor relations in this country are not peculiar to the United States or to these times. Joint monopolies of organized labor and organized industry have long thrived in the building industry of many American cities. In England similar arrangements have prevailed in several of their industries, to the disadvantage of the consumer, through higher prices; of labor, through reduced employment; and of industry, through shrunken markets. Only recently the British Board of Trade rejected a proposal of the cotton industry, urged also by the trade unions, for "a regime of self-government. . . with legally enforceable price-fixing powers and with jurisdiction over rayon, cotton's young competitor. . ." In his rejection, Mr. Dalton, president of the Board of Trade, said: "There are grave dangers in such minimum price arrangements, which may easily lead to restriction rather than expansion of output, and to the perpetuation of inefficient and old-fashioned methods at the expense of more efficient and up-to-date firms." [1]

The foundations are already being laid for the creation of joint labor-employer monopolies in many of the largest and most important segments of American industry. The economic policies on which such arrangements rest are simple. They are price-fixing and restriction of output, based on the mistaken notion that expansion of economic activity, and hence of employment, can be achieved by raising wage rates and prices, by protecting wage rates and prices against powerful forces of adjustment, and by halting advances in industrial efficiency. However strong the humanitarian impulse to strengthen the position of organized labor may be, it is to be doubted that this kind of policy really serves the genuine and permanent interests of working men and women.

Leo Wolman

[1] *The Economist*, London, September 30, 1944, p. 452.

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THE BRETTON WOODS PROPOSAL FOR AN INTERNATIONAL MONETARY FUND

I *The Bretton Woods Conference*

CONSIDERABLE interest has developed in the recommendations of the United Nations Monetary and Financial Conference, which upon the initiative of the United States met at Bretton Woods, New Hampshire, from July 1 to July 22, 1944. The sessions were attended by delegates from forty-three nations, by a French Delegation and by the Danish Minister at Washington. In addition, observers were present from the following international organizations: the Economic, Financial and Transit Department of the League of Nations; the International Labor Office; the United Nations Interim Commission on Food and Agriculture; and the United Nations Relief and Rehabilitation Administration.

At the inaugural plenary session held on July 1, 1944, Secretary Morgenthau, Chairman of the United States Delegation, was elected permanent President of the Conference. The Conference itself was divided into three technical commissions: Commission I on the International Monetary Fund; Commission II on the International Bank for Reconstruction and Development; and Commission III on Other Means of International Financial Cooperation. The officers of these Commissions and their respective committees were elected by the Conference. Dr. Harry D. White of the United States Delegation was elected Chairman of Commission I; Lord Keynes, Chairman of the United Kingdom Delegation, was elected Chairman of Commission II; and Eduardo Suárez, Minister of Finance of Mexico and Chairman of the Mexican Delegation, was elected Chairman of Commission III.

The Articles of Agreement of the International Monetary Fund were adopted at a plenary session held July 20; those of the International Bank for Reconstruction and Development

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were adopted at a plenary session held on July 22. In addition, a number of general resolutions were endorsed. Those adopted by the Conference itself called for the liquidation of the Bank for International Settlements at the earliest possible moment, for the uncovering, segregation and appropriate disposition of enemy assets, and for an early agreement among the participating governments on ways and means to reduce obstacles to international trade, to bring about the orderly marketing of staple commodities, to effect a smooth transition from war to peace production and to harmonize the policies adopted by member states directed toward the promotion and maintenance of high levels of employment and standards of living. In addition, Commission III recommended that the problems resulting from wide fluctuations in the value of silver merited further study by interested nations.

In the invitation extended to the participating governments, President Roosevelt stated that "the agreement by the conference upon definite proposals will not be binding either morally or legally on the governments represented but will be referred to the respective governments for adoption or rejection."[1] Similarly, in an interview in Chicago, Secretary Morgenthau stated that the agreements reached at the monetary conference would have no binding effect on this country in the absence of Congressional approval.[2] The Articles of Agreement on the Fund and the Bank will probably not be submitted to Congress until early in 1945. Action by foreign governments on these two plans will in all probability be deferred until the American Congress has declared its attitude.

II *Monetary Discussions Prior to the Bretton Woods Conference*

Active public discussion of the problem of currency stabilization was initiated by the release, early in April 1943, of two draft plans prepared by experts of the American and British governments. The American plan, commonly termed the White plan, proposed the establishment of a "United and Asso-

[1] *New York World Telegram*, June 23, 1944, p. 23.

[2] *The New York Times*, June 20, 1944, p. 1.

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ciated Nations Stabilization Fund", and the British plan, commonly termed the Keynes plan, the establishment of an "International Clearing Union". Neither the American nor British government committed itself to the plans proposed. Both were issued in tentative form and were offered as a basis for consideration and criticism. Discussions between governments were to take place entirely on an expert level. Through an interchange of views it was hoped that a plan might be evolved which would have the support of the United Nations.

In format, the White plan resembled a bill prepared for legislative consideration and, in consequence, was lacking in "reader appeal". The Keynes plan, on the other hand, was issued as part of a pamphlet, which viewed the problem of stabilization in its various aspects, and, as a result, elicited immediate reader interest. In a way it was unfortunate that the two plans were offered simultaneously, for the reason that attention became centered on their detailed provisions, their similarities and dissimilarities rather than on the problem of currency stabilization itself.

A month after the publication of the White and Keynes plans (May 9, 1943), a memorandum on currency stabilization, which had been prepared by a group of French experts, was made public.[3] Written prior to the release of the American and British proposals, the distinctive feature of this memorandum was that it suggested a "key-nation" approach to the problem of currency stabilization.

> There is little doubt that a return to a generalized system of multilateral international trade, excluding foreign trade control and foreign exchange control, cannot be expected for some time after the end of hostilities. . . . The states of Continental Europe, in particular, devastated by war and by the consequences of German occupation, will have first to feed their population, to import essential supplies, and then to reconstruct their capacity of production for national consumption and for foreign export. It is out of the question to let private importers, each

[3] *Ibid.*, May 9, 1943. The authors included, among others, André Istel, former financial adviser to the Reynaud Ministry, and Hervé Alphand, at one time French financial attaché in Washington.

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acting independently, import foreign products without restrictions.

It is necessary, therefore, the memorandum continued, to achieve a practical system of exchange stability with the following characteristics: it must be applicable as soon as hostilities cease or earlier; it must be applicable simultaneously to those economies which practice foreign trade and foreign exchange control and to those economies which enjoy freedom from such controls; and it should constitute a first step toward a better system of international economic relationship.

The proposals of the French experts suggested that the leading nations, as in the case of the Tripartite Agreement of 1936, "conclude a monetary accord". In this agreement, the official exchange parities of the leading countries would be fixed and would not be changed without preliminary consultation. To assure stability to the rates thus determined, the monetary authorities would agree to purchase each others' exchange in specified amounts and with guarantees against loss. Action would be taken, if necessary, to counteract the inflationary risks entailed in the opening of mutual credits. The memorandum also proposed that the monetary authorities of the participating nations consult with one another frequently, either by means of periodical meetings or by the establishment of a permanent committee.

From a positive point of view, the French memorandum offered a practical and realistic approach to the problem of international currency stabilization. It was not so ambitious or intricate that its introduction would have had to be deferred until general political and economic stability had been achieved. The underlying assumption was that it could be put into effect immediately, could gradually be extended to other nations, and would ultimately lead to a general return to an international gold standard. Many students of the problem have expressed regret that the suggestions of the French experts were not further explored.[4]

[4] Williams, John H., "Currency Stabilization: The Keynes and White Plans", *Foreign Affairs*, July 1943.

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On July 10, 1943 a revised draft of the White plan was issued by the United States Treasury Department. The revision resulted from suggestions made by experts in other Departments of the United States government as well as by the technical experts of foreign countries. It was made clear that the revised draft was to be looked upon as a preliminary document, representing the views of the technical experts of the United States government and not those of the Administration.

Two days after the publication of the revised White plan (July 12, 1943) the Hon. J. L. Ilsley, Minister of Finance of Canada, released the tentative draft proposals of Canadian experts for an International Exchange Union. Although these proposals resembled the White more than the Keynes plan, they incorporated important features of both and added certain new elements.

Following the issuance of the revised White plan, the stabilization proposals of the Treasury were subjected to searching analysis.[5] Although Treasury experts on various occasions invited discussion and criticism of their proposals, they left the distinct impression that these were to apply to the detailed provisions of the plan rather than to the plan itself. Criticisms of a fundamental character and suggestions for alternative approaches to the problem seemingly were not encouraged.[6]

On April 21, 1944, a year after the publication of the original White and Keynes plans, a Joint Statement by Experts on the Establishment of an International Monetary Fund was released. At the time of its release, the announcement was

[5] A selected bibliography has been issued by the International Finance Section of the Department of Economics and Social Institutions of Princeton University.

[6] Alternative approaches included: "Place of the United States in the Post-War Economy", Report by the Economic Policy Commission of the American Bankers Association, September 1, 1943; Fraser, Leon, "Reconstructing World Money", *New York Herald Tribune* Forum on Current Problems, November 16, 1943; Beckhart, B. H., "Post-War Financial Assistance to Foreign Nations", Statement before the Committee on Foreign Affairs of the House of Representatives, April 27, 1944, reprinted by the Economists' National Committee on Monetary Policy; Riddle, J. H., "International Financial Organization", *Proceedings of the Academy of Political Science*, vol. XXI, No. 1, May 1944.

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made that it had been endorsed by certain of the United and Associated Nations. Just how many of these nations gave partial or full endorsement to the Joint Statement has never been revealed.

Shortly after the release of the Joint Statement, plans were laid for the Bretton Woods Conference. In making public the personnel of the American Delegation, President Roosevelt announced that the members were expected to adhere to the joint statement of principles. Modifications were to be permitted only if they did not fundamentally alter the monetary plan already proposed. In other words, the American Delegation from the outset was committed to a particular course of action.[7]

It was made clear in the different monetary proposals offered through this period that agencies for monetary stabilization were only one of several instrumentalities that would be needed in the post-war period. As the preface to the Canadian plan stated, "It would, indeed, be dangerous to attach too much importance to monetary organization of and by itself, if this resulted in neglect of other problems which may be even more important and difficult, or in a misguided faith that with a new form of monetary organization the other problems would solve themselves . . . it will be necessary to attack frontally such problems as commercial policy, international investment, the instability of primary product prices—to name but a few." Similarly in the introduction to the Keynes plan, the point was made that four main lines of approach were required to effect the transition from war to peace. These had to do with the mechanism of currency and exchange, the framework of a commercial policy, the orderly conduct of the production, distribution and pricing of primary products, and investment aid for those countries whose economic development stood in need of assistance.

III *Basic Reasons for the International Monetary Fund*

The detailed provisions of the International Monetary Fund, outlined in the next section, can be the better understood if

[7] *The New York Times*, June 24, 1944, p. 14.

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the basic motives which prompted the proposals are set forth. Only against the background of its fundamental purposes, can one fully understand the import of the Fund and evaluate its fitness to achieve the ends desired.

Among the arguments advanced for the establishment of the Fund was the obvious one that the proposed organization would serve a useful purpose in facilitating international consultation and collaboration on monetary and credit problems. If this were the only purpose of the Fund, its functions could be performed fully as well by the Bank for International Settlements, or by some similar institution.

The purposes of the Fund, however, far transcend these particular functions, and this fact explains the size of the Fund and the detailed provisions concerning credit operations, exchange stabilization, exchange control and scarce currencies. Apparently two reasons accounted for the size of the Fund and for these particular provisions: (1) the desire to render financial aid to England, and (2) the desire to circumvent the alleged defects of the international gold standard.

England's post-war financial difficulties will arise from two circumstances. The first concerns the accumulation of blocked balances during the war, a problem which England apparently plans to handle by direct negotiation with each of the creditor nations. The second concerns England's balance of payments in the immediate post-war period. It may take England from one to two years to reconvert her industry to peace production, to reëstablish contacts with the foreign importers of her products, and to build up her export trade to a point where she can pay for needed imports. During this period she will require food and essential raw materials. Before the war these could have been paid for by the liquidation, if need be, of her foreign investments. Since these have been greatly reduced during the war, she will need foreign funds, i. e., dollar exchange, during the transition period.

Although, according to the Articles of Agreement, the International Monetary Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebted-

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ness arising out of the war,[8] its advocates maintain that it can and should be used to enable England to finance needed imports during the post-war transition period. That this is one of the basic purposes of the Fund is indicated by the statement frequently made by its supporters that, if it is not adopted, England will be forced into bilateral trade tactics.

While the opponents of the Fund recognize the seriousness of the British post-war financial situation, they hold to the opinion that it should be handled as a separate transaction and contend that neither the Fund nor any international credit institution should be used for this purpose. They point out that, unless the limitations on credit operations included in Article V, Section 3, were waived, England could not obtain from the Fund the amount of foreign exchange needed to tide her over the transition period.[9] Even if England were permitted to obtain the amount required, the opponents of the Bretton Woods proposal maintain that the Fund should not be used for this purpose. To do so would cause its assets to become frozen.

Suggestions for the solution of Britain's financial problem as a separate transaction have been made by Leon Fraser and Winthrop W. Aldrich.[10] Mr. Fraser proposed that the United States be prepared to grant England a credit in the form of a call on our gold stock of perhaps five billion dollars with the understanding that neither nation would engage in competitive exchange depreciation, and that the dollar-sterling rate would be fixed from time to time by mutual agreement. He further suggested that the balance of British debts of World War I be cancelled, that a moratorium of five years be allowed England on post-war Lend-Lease repayments involving transfers, that both nations eschew economic domination and pursue international economic policies designed to promote currency stability,

[8] The prohibition on the use of the Fund's resources to deal with international indebtedness arising out of the war was adopted at Bretton Woods against the opposition of the Indian delegation.

[9] Estimated at about $3,000,000,000.

[10] Fraser, *op. cit.* Aldrich, Winthrop W., "Some Aspects of American Foreign Economic Policy", an address before the Executives' Club of Chicago, September 15, 1944.

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that the Bank for International Settlements be reorganized on a wider basis in a different location and be used as a center for international monetary consultation and planning. More recently Mr. Aldrich suggested that the United States give England a grant-in-aid sufficiently large to stabilize the dollar-pound relationship, provided that both nations agree to eliminate barriers to international trade. Both Mr. Fraser and Mr. Aldrich are advocates of the "key-nation" approach to the stabilization of currencies and both are convinced that England's post-war financial problem should be solved by direct negotiation. Both maintain that Britain's financial problem must be solved before the pound sterling can be stabilized. The Fund provides but an indirect and ineffectual attempt to solve a problem which should be attacked directly.

The second of the more fundamental reasons accounting for the size of the Fund and for many of its provisions involves the alleged defects of the gold standard. These defects pertain largely to the reputed deflationary characteristics of gold which are attributed to its scarcity, its bad distribution and to the fact that gold production is determined by factors other than trade requirements.

The International Monetary Fund offers three methods of overcoming the reputed defects of the gold standard—the extension of loans by the Fund, changes in exchange rates, and the retention and imposition of exchange controls. The credit operations of the Fund, which are to take place on an automatic basis, are designed to overcome the alleged scarcity and maldistribution of gold by providing each nation with the right to draw, up to certain amounts, upon the currencies of other nations. These credit operations, in the language of the Keynes plan, are intended to provide a quantum of international currency governed by the requirements of world commerce and to start off every country after the war with a stock of reserves appropriate to its importance in world commerce. Whatever quantum of international currency and reserves were provided would, of course, take the form of American dollars. The right of member nations to draw upon the currencies of other nations constitutes in effect a right to draw on dollars, which, as the world's principal international currency, would be in

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sharp demand. Put in slightly different terms, monetary and credit expansion in the United States would be relied upon to overcome the alleged scarcity and maldistribution of gold.

British experts apparently were convinced at the time the Keynes plan was released that huge lending powers must be possessed by any international monetary organization if a multilateral system of free exchanges were to be established early in the post-war period. Otherwise member nations would have to be given wide latitude to change their exchange rates and to retain and impose exchange controls. In consequence, the acceptance by the British of aggregate quotas of $8,800,000,000 provided in the International Monetary Fund, in place of aggregate quotas of about $30,000,000,000 provided in the Keynes plan, was based on the fact that member nations were accorded great liberality respecting changes in exchange rates and the retention of exchange controls. Less liberality in credit operations, as a means of circumventing the alleged defects of the international gold standard, required greater liberality in the other means to be employed.[11]

The reputed defects of the international gold standard are, in the main, to be attributed to defects in credit management and commercial policy. Gold appears to be scarce and maldistributed when credit systems cease to function effectively and when commercial policies are not adjusted to a nation's international financial position.

The experience of the past indicates that gold is in greatest demand when confidence in credit systems is weakened. The impairment of confidence is but one phase of a liquidity crisis, resulting usually from a previous misdirection and misuse of credit. If commercial bank credit were used to finance commercial transactions of a genuinely self-liquidating character, credit systems doubtless would not collapse and liquidity crises would not occur. Commercial banking systems would be able to discharge their liabilities on the basis of loan repayments resulting from the passage of goods into channels of consump-

[11] Williams, John H., *Postwar Monetary Plans and Other Essays* (New York, 1944), pp. xiii-xiv.

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tion. Under these circumstances, credit claims would clear readily against credit claims, and the demand for gold would be reduced to negligible proportions. When commercial bank credit is used to finance those long-term needs, which should properly be financed from savings funds, the credit system eventually suffers a loss of confidence and gold falls subject to increased demand. The problem of gold scarcity, therefore, is a problem resulting from the breakdown of the credit system.[12]

The particular location of the world's gold stock is of little economic significance if the nation with an abundant supply follows a liberal trade policy, if the portfolios of its commercial banks are genuinely liquid, and if capital exports do not reveal erratic fluctuations. In short, if the United States acts as a creditor nation, the problem of maldistribution is nonexistent.[13]

The extension of credits—the British method of overcoming the alleged scarcity and maldistribution of gold[14]—is apt to accentuate whatever disequilibrium exists. In the decade of the twenties, the use of short-term funds for long-term financing eventually brought on the liquidity crisis. Credit extensions masked the effects of tariff enactments and enabled payments to be made on account of reparations and war debts. Unless trade barriers are removed and unless credit is extended for specific projects of a productive character, the credit operations of an international monetary fund in the decade of the forties will similarly be misdirected and misused.

[12] Dunkman, W. E., *Qualitative Credit Control* (New York, 1933), chaps. iv and viii.

[13] In the decade of the twenties, British observers frequently charged that the United States sterilized gold, i. e., did not permit credit to expand in proportion to the amount of gold received—and in consequence did not abide by rules implicit in an automatic gold standard. A review of the banking data of that period affords convincing evidence that not only did credit expand sharply in the United States but, in being used to finance long-term credit needs, it expanded in wrong directions, and that this was responsible for the inflation occurring in real estate and security prices.

[14] The loss of gold by the United States since 1942 represents, in effect, a redistribution of the world's gold supply.

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The brief résumé of the motives behind the proposals for the Fund indicates that they were perhaps three in number: the desire to establish an institution for international monetary cooperation and consultation, to assist in the solution of England's immediate post-war financial problems, and to overcome the reputed defects of the gold standard. In the opinion of many students, England's post-war financial needs should be handled directly rather than through the mechanism of the Fund, and remedies for the reputed defects of the gold standard lie in the fields of commercial policy and credit management. The first motive remains, that of establishing an institution for international consultation and coöperation on monetary and credit problems. In itself, this is sufficient justification for the establishment of an international credit institution, though one of more limited size and scope than the International Monetary Fund.

Those who drafted the monetary plan apparently failed to view the pre-1914 gold standard in its proper perspective. They thought of it as something mechanistic rather than as something organic which had evolved naturally along with the development of banking systems, of money markets, of international financial centers, of capital exports and of multilateral trade. They exaggerated the rôle of gold in business fluctuations and minimized that of credit, from the point of view both of its volume and of its quality.

IV *The Provisions of the International Monetary Fund*

The Introductory Article of the International Monetary Fund Agreement lists six purposes which shall guide the Fund in all of its decisions and which, indeed, reflect the basic reasons initially prompting the proposals of Dr. White and Lord Keynes. The Fund is charged with the responsibility of promoting international monetary coöperation; of facilitating the expansion and balanced growth of international trade and of contributing thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy; of promoting exchange stability, of

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maintaining orderly exchange arrangements, and of avoiding competitive exchange depreciation; of assisting in the establishment of a multilateral system of payments with respect to current transactions; of giving confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments; of shortening the duration and lessening the degree of disequilibrium in the international balances of payments of member nations.[15]

The listed purposes of the Fund indicate that its objectives transcend the problem of currency stabilization, a fact given recognition in a change in title. The Bretton Woods proposal is termed an "International *Monetary* Fund", whereas the revised White plan was termed "An International *Stabilization* Fund of the United and Associated Nations".[16]

Its purposes are so broad that the Fund would probably bog down in the morass of its own inconsistencies. Is its primary purpose to be that of currency stabilization and, if so, is it to grant short- or long-term stabilization loans, or both? Or is its primary purpose to be that of financing the economic development of the member nations?

In their all-inclusive nature, the purposes of the International Monetary Fund more nearly resemble those of the Keynes than those of the White plan. To be assured of success, the Fund should be charged with a few simple objectives. These would include such duties as the furnishing of short-term seasonal stabilization credits to central banks, holding the clearing balances of central banks, providing a means for international consultation on problems of currency stabilization and monetary reform, compiling and disseminating fi-

[15] Terms such as "maladjustment" and "disequilibrium", although frequently used, are not defined.

[16] As one student of the subject pointed out, the press reports of the Bretton Woods Conference indicated that the delegates were more concerned with the amounts that they could borrow than with the essentials of stabilization. Riddle, J. H., "Bretton Woods Monetary Conference", an address before the Sales Executives Club of New York, July 25, 1944, p. 8.

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nancial data, and conducting research on monetary and credit problems.

The original members of the Fund are to consist of the countries represented at the United Nations Monetary and Financial Conference, provided that they accept membership prior to December 31, 1945.[17] Other nations may join later in accordance with the terms prescribed by the Fund. A member may withdraw from the Fund at any time.

The powers of the Fund are to be vested in a Board of Governors, consisting of one governor and one alternate, appointed by each member nation for a five-year term. The Board of Governors is permitted to delegate to the Executive Directors all but the most important of its powers.

There are to be not less than twelve Executive Directors who need not be governors. The Executive Directors, who are to function in continuous session at the principal office of the Fund (to be located in the territory of the member with the largest quota), are to be elected in the following fashion: (1) five shall be appointed by the five members having the largest quotas (the United States, the United Kingdom, Russia, China and France); (2) two shall be elected by the American Republics not entitled to appoint directors; and (3) five shall be elected by members not entitled to appoint directors, other than the American Republics.[18]

The Executive Directors are to select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be Chairman of the Executive Direc-

[17] Countries which have been under enemy occupation may sign the Agreement and become original members but may postpone actual acceptance of the obligations of membership until six months after their territories have been liberated from the enemy.

[18] Two additional Executive Directors may be appointed in accordance with the following provisions. If, at the second regular election of directors and thereafter, the members entitled to appoint directors do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

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tors but shall have no vote except a deciding vote in case of an equal division. The Managing Director shall be chief of the operating staff of the Fund.

Each member shall have 250 votes plus one vote for each part of its quota equivalent to $100,000. The United States is entitled to cast 27,750 votes, or about 28 per cent of the total voting strength of 99,000 votes.[19] All decisions of the Fund are to be made by a majority of the votes cast, except in the case of a change in quotas (Article III, Section 2), a uniform change in the par value of currencies (Article IV, Section 7), a change in the Fund's charges (Article V, Section 8), the publication of a report on a member's monetary or economic conditions or developments which directly tend to produce a serious disequilibrium in the international balance of payments of members (Article XII, Section 8), the compulsory withdrawal of a member (Article XV, Section 2), an extension of the suspension of certain provisions of the plan (Article XVI, Section 1), and the adoption of amendments (Article XVII).

Whenever voting is required on a waiver of the loan restrictions of the Fund, or on a decision to limit a member's use of the Fund's resources, each member is to be entitled to its normal voting strength plus one vote for the equivalent of each $400,000 of the net sales of its currency by the Fund and minus one vote for the equivalent of each $400,000 of net purchases on its part of the currencies of other member nations. Should the Fund sell the entire quota contribution of the United States, the effect of this provision would be to increase the voting strength of this country on the above issues to about 35 per cent of the total.

The Agreement relating to the International Monetary Fund is not to come into effect until it has been signed on behalf of the countries having 65 per cent of the total quotas, i. e., countries having aggregate quotas of about $5,700,000,000. It is to remain open for signature in Washington until December 31, 1945, but in no event is the Agreement to enter into force before May 1, 1945. The Fund shall begin exchange transac-

[19] The British Empire controls 25.3 per cent of the total voting strength.

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tions at such date as it may determine after members having 65 per cent of the quotas become eligible to purchase the currencies of other members, but not until after major hostilities in Europe have ceased. Furthermore, the Fund may postpone exchange transactions with any member if it believes that this would lead to a use of its resources in a manner contrary to the purposes of the Agreement, or prejudicial to the Fund or its members.

Each nation represented at Bretton Woods was assigned a quota in the Fund, set forth in Schedule A of the Agreement. These varied from $5co,000 in the case of Liberia and Panama to $2,750,000,000 in the case of the United States. Total quotas come to $8,800,000,000. Quotas serve several purposes. They determine the voice and responsibility of a member nation in the management of the Fund, its contribution to the Fund's assets and its right to the credit facilities of the Fund.

Because quotas determine access to the benefits of the Fund, some of the nations represented at the Bretton Woods Conference pressed for larger and larger quotas. In both the White and Keynes plans, quotas were to be determined by certain formulae. The White plan provided that the quotas were to be determined by such factors as holdings of gold and free foreign exchange, the magnitude of and fluctuations in the balance of international payments, and national income. The Keynes plan provided that initial quotas might be related to the sum of each country's imports and exports on the average of (say) the three pre-war years and might be (say) 75 per cent of this amount.

The International Monetary Fund contains no formulae by which the quotas are to be determined. Those nations represented at the conference were assigned the quotas set forth in Schedule A, and it was stipulated that the quotas of other members would be determined by the Fund. Only those present at the conference know to what extent, if any, "scientific" criteria were used in the determination of quotas. On the basis of newspaper accounts of the conference, political considerations apparently played a rôle of no small importance. Certainly this seemed to be the case in the determination of the

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Russian quota, which was increased appreciably during the course of the conference.[20]

At intervals of five years, the Fund is to propose adjustments in the quotas of member nations, if it deems such action appropriate. A four-fifths majority of the total voting power shall be required for any change in quotas, and no quota may be changed without the consent of the member concerned. These particular restrictions on the power of the Fund to increase quotas are conservative. The White and Keynes plans, on the other hand, included provisions for the automatic adjustment of quotas which during a period of inflation might easily have become self-inflammatory.

Each member is to pay its quota in full on or before the date it becomes eligible to buy currencies from the Fund. The quota payments are to consist in small part of gold and in large part of the currency of the member nation. The gold portion of the quota is to consist of the smaller of the following amounts: 25 per cent of the quota, or 10 per cent of the member's official holdings of gold and United States dollars.[21] The currency portion of the quota will in most cases consist of deposit credits on the books of the central bank in the member country. However, in place of these deposit credits the Fund may accept the non-negotiable, non-interest-bearing demand obligations of the member country or of its designated depository.

[20] *The Economist* (London), July 29, 1944 (p. 138), states: "It is true that the conference presented the unedifying spectacle of a technical gathering being jockeyed by purely political considerations, and the determination of the quotas resembled the process of political chaffering more than an objective attempt to achieve equity. Some of the results are ludicrous. Populous and powerful though the Soviet Union is, and immense as its services to the common war-time cause are, it is fantastic to suppose that its part in the financial transactions of the world either is, or for a very long time will be, at all comparable with that of the United Kingdom—yet the Russian quota is $1,200 million against the British $1,300. Or again, nothing save the fashionable myths of the moment could justify a quota for China larger than that for France or double that for Holland—both of which presumably cover those countries' colonial possessions. The management of the Fund and the Bank will have to rise above this sort of petty huckstering."

[21] Holdings are measured as of the date on which the Fund notifies members that it will soon be able to begin exchange transactions.

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At its inception the gold assets of the Fund may come to $1,643,000,000.[22] In this case, the balance, $7,157,000,000, will consist of central bank deposit credits and non-negotiable, non-interest-bearing obligations. If these estimates prove correct, the balance sheet of the Fund would appear initially as follows:

The International Monetary Fund
(amounts in millions of dollars)

Assets		Liabilities	
Gold	$1,643	Capital	$8,800
Deposit credits and obligations	7,157		
	$8,800		

Apparently it is contemplated that the Fund will hold, in the form of deposit balances with central banks, only that portion of its non-gold assets which is not required for current operations. The remainder will take the form of non-negotiable, non-interest-bearing obligations of member nations or of their designated depositories. According to proponents of the plan, there were two reasons for the provisions permitting the Fund to accept member nation obligations in lieu of deposit credits. The first was to prevent a serious decline in the reserve ratio of central banks, which might follow a substantial increase in their deposit liabilities and which might create the impression of inflation or illiquidity. The second was to obviate the need on the part of the member country to float open-market loans, should it desire to meet its quota in this fashion, when interest rates were high. The substitution of the obligations of member nations for central bank deposit liabilities may, however, obscure the effect of the operations of the Fund, particularly in those nations purchasing the currency of other members. If the international financial position of these na-

[22] *Federal Reserve Bulletin*, September 1944, p. 855. Of the gold assets of the Fund, the United States will supply $687,500,000, and other member nations an amount estimated at $955,500,000.

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tions is to be fully revealed, sales of currency to the Fund should be shown as an increase in central bank deposit liabilities.

Should the plan be adopted, the United States, in contributing the gold portion of its quota contribution ($687,500,000), would probably draw upon the unused profits of the gold devaluation of 1934. These come to about $1,800,000,000 and are included among the assets of the American stabilization fund which was established at that time.[23] This particular employment of the profits of gold devaluation has been defended on the ground that our contribution to the Fund thus would prove "costless". It would prove costless only in the sense that our contribution would not be covered by tax revenues. It would not prove costless if credit expansion and inflation were induced. If inflation resulted, the cost would be placed upon the middle classes of the country whose incomes would not keep pace with the rise in living costs. The conservative policy would be to meet our entire contribution to the Fund from tax levies.

Although the total assets of the Fund come to $8,800,000,000, it has been estimated that the actual lendable assets (holdings of gold plus holdings of those currencies likely to be in greatest demand) will not exceed perhaps $4,000,000,000. The bulk of this amount is made up of the American quota of $2,750,000,000. The fact that the assets of the Fund may be classified roughly as those that are lendable (subject to demand) and those that are non-lendable (not subject to demand) carries the implication that the assets are not of uniform quality. The assumption that there is a qualitative difference between currencies held by the Fund underlies several of the

[23] It would seem desirable not to prolong the life of the American stabilization fund beyond the expiration date of June 30, 1945. Its assets could be turned over to the Federal Reserve Banks in return for an equivalent amount of the public debt. This action, in increasing the reserves of the Federal Reserve Banks, would bring about a desirable increase in their reserve ratios. Terminating the life of the American stabilization fund would not hamper American monetary authorites, because it has engaged in no operation which the Federal Reserve Banks could not have handled equally as well.

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provisions of the plan itself.[24] Otherwise how can one explain the sections which require a member nation, desiring to obtain the currency of another member for gold, to do so by the sale of gold to the Fund,[25] which require a member nation each year, under certain conditions, to repurchase with gold or convertible currencies part of the Fund's holdings of its currency,[26] and which require a member nation, with certain exceptions, to pay charges levied by the Fund in gold?

The qualitative difference between various assets held by the Fund would disappear if at the outset they were to consist solely of gold.[27] This requirement could be imposed if the size of the Fund were drastically reduced. And if the operations of the Fund were confined to seasonal stabilization loans, its size could be reduced drastically.

According to the provisions of the International Monetary Fund Agreement, credit transactions occur when one member

[24] A qualitative difference between various currencies was implied by Dr. White in testimony before the Committee on Foreign Affairs of the House of Representatives (78th Congress, 2nd Session, on H. J. Res. 226, p. 161) when he said: "Our money is the soundest in the world." If the American dollar is the soundest in the world (a statement with which I agree), then by implication other currencies must be less sound. Earlier he stated (p. 140) that participation in the Fund will make a member's currency (up to its permissible quota) "virtually as good as gold". If there were no qualitative difference in the assets of the Fund, local currencies would be as good as gold, not *virtually* as good.

[25] Provided it can do so with equal advantage.

[26] For a discussion of the recapture provisions of the International Monetary Fund see Williams, John H., "International Monetary Plans: After Bretton Woods", *Foreign Affairs,* October 1944.

[27] In a mimeographed document issued by the United States Treasury on June 10, 1944 and entitled, "Questions and Answers on the International Monetary Fund", the following question appears (p. 29): "What is the purpose of requiring that a portion of the subscribed quota be paid in gold?" The answer given is: "Because of the unquestioned acceptability of gold as an international exchange medium the power of the Fund to serve its members will depend in part upon the size of its gold holdings. With gold the Fund can buy the currency of any member country. If the assets of the Fund consisted solely of currencies of member countries, there would be a danger that relatively small disturbances in the balance of payments positions of member countries would leave the Fund short of certain currencies." And again on the same page: "In many respects an ideal Fund would be one consisting predominantly of gold."

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nation (through its Treasury, central bank, stabilization fund or similar fiscal agency) sells its currency (central bank deposits and non-negotiable, non-interest-bearing obligations) to the Fund for the currency of another member nation. In all instances, the transactions are to be of a bilateral character; i. e., operations are limited solely to transactions in which a member nation desires to purchase the currency of another member nation in exchange for gold or its own currency. This limitation means that the Fund may not, for example, sell United States dollars to England against the receipt of French francs. In its document, "Questions and Answers on the International Monetary Fund", the United States Treasury Department stated that the Fund could render greater service if it were permitted to engage in multilateral transactions, which, it concluded, could take place if all currencies were freely convertible into gold.[28] This restriction upon the Fund's operations, doubtless inevitable in view of the varying quality of its assets, tends to limit its usefulness.

Each member nation is permitted to sell its own currency to the Fund in an annual amount not to exceed 25 per cent of its quota [29] and to continue to do so each year until the Fund's holdings of its currency are equal to 200 per cent of its quota. Stated in a slightly different fashion, the aggregate amount of its own currency which a member nation may sell to the Fund in exchange for the currency of other member nations is equal to the total of its gold contribution to the Fund plus its quota.

For example, let us assume that a nation's quota comes to $100,000,000, and its gold contribution to $25,000,000. Thus the Fund holds at the outset $75,000,000 of the currency of this nation, an amount equal to 75 per cent of its quota. This nation is then permitted to sell its own currency to the Fund until the Fund's holdings equal 200 per cent of its quota. In other words, it would be permitted to sell $125,000,000 of its own currency to the Fund, an amount equal to its quota plus its gold contribution. Inasmuch as a member nation in any

[28] Pp. 58 and 59.

[29] Unless the Fund's holdings of its currency are below 75 per cent of its quota, or unless special permission has been granted.

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one year may not sell its own currency to the Fund in an amount greater than 25 per cent of its quota, unless Article V, Section 3, a, iii is waived, this particular process would take five years.

A member nation purchasing the currency of another member must represent that it is needed for payments that are consistent with the provisions of the Agreement. However, the listed purposes of the International Monetary Fund are so broad that few transactions would seem to be excluded. A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, to finance relief or reconstruction, or to deal with international indebtedness arising from the war. It may, however, employ the Fund's resources to facilitate the expansion and balanced growth of international trade, to correct maladjustments in its balance of payments, to shorten the duration and to lessen the degree of disequilibrium in its balance of payments, and to meet all payments due in connection with foreign trade.

The objectives of the Fund are so ambiguous that it may prove difficult to apply them to specific situations. The nations which may desire to make use of the resources of the Fund in the post-war period in order to obtain dollars are, in the descending order of their quotas, England, Russia, China, Poland, Yugoslavia and Greece. India, too, may wish to use the Fund to obtain dollars, should she be unable to convert a part of her blocked sterling balances into American currency. The aggregate quotas of these seven nations come to $3,675,000,000, and, while the absence of published data simply permits one to make conjectures, it is not probable that these nations as a whole will fall subject to the recapture provisions of the Fund for perhaps five years after its establishment. If these nations, and these nations alone, were to make full use of their right to obtain dollars, the dollar resources of the Fund, from the standpoint of our quota contribution, might be exhausted within perhaps three years. The United States would then be confronted with the problem of making loans to the Fund to provide it with additional dollar assets.

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In the immediate post-war period, England will need dollars in order to finance imports of food and essential raw materials. The other nations listed above will want dollars in order to buy capital goods and to develop their productive resources. The question will arise whether these particular uses of the Fund run counter to the injunction that the Fund's resources are not to be used to finance relief and reconstruction [30] or to deal with wartime international indebtedness. While this question is not easy to answer, these particular uses of the Fund's resources can probably be justified by a liberal interpretation of the broad purposes of the Fund and a narrow interpretation of the meaning of relief and reconstruction. The voting strength of the nations listed plus that of a few friendly Powers would probably prove sufficient to endorse a liberal interpretation of the Fund's objectives.[31]

It should be noted that the Fund, at its discretion and on terms which safeguard its interests, may waive any or all of the restrictions on the right of a member nation to use its resources. In waiving these restrictions, the Fund is to take into consid-

[30] The proponents of the Fund never really faced the issue as to whether or not its resources were to be used in the transitional period. If they did not want the Fund's resources to be so used, the only certain preventive would have been the insertion of a provision in the plan postponing the credit operations of the Fund for at least five years after the final termination of hostilities. In this case the assets of the Fund could be greatly reduced, inasmuch as they are much too large to be required in a normal period. If the Fund is to engage in credit operations immediately after the war, its resources will inevitably be used, directly or indirectly, for transitional purposes. If not used directly for such purposes, the fact that member nations may draw upon the Fund's resources for current payments in connection with foreign trade will permit them to use their other dollar assets and gold holdings for reconstruction and relief. If employed in any manner directly or indirectly, through the transitional period, the resources of the Fund will tend to become frozen. Professor Williams has frequently made the point (i. e., in *Postwar Monetary Plans and Other Essays,* pp. xxix-xxx) that means and agencies other than the Fund should care for the needs of the transitional period, and that decision concerning the Fund should be deferred until we know what those means and agencies are.

[31] If the United States objected to a broad interpretation given to the provisions of the Fund, it could withdraw from membership. This action, however, would wreck the organization and would give rise to bitter international recriminations.

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eration the record of the member nation in making large or continuous use of the Fund's resources, the periodic or exceptional requirements of the member nation requesting the waiver, and the willingness of the member to pledge collateral security.

Credit operations of the Fund take place on a virtually automatic basis, until it holds a member's currency in an amount equal to 200 per cent of its quota. This is the one feature of the Bretton Woods proposals and of the Keynes and White plans which provoked the severest criticism,[32] and the one feature which, in the sharpest possible manner, reflects the debtor psychology underlying the proposals. Credit operations take place without reference to the particular credit needs of the borrowing nation, without reference to its internal financial position, and without reference to the ability of the nation to repay the funds borrowed.[33]

The implicit assumption of the automatic lending provisions of the plan is that the currencies of member nations are of equal quality and of universal acceptability. This, as we have seen, is far from the case. The result of these provisions would be to increase the Fund's holdings of poor currencies and to decrease its holdings of good currencies. Its assets would suffer a sharp deterioration in quality.

Furthermore, the credits extended by the Fund are subject to only nominal interest charges. Each member buying the

[32] See Riddle, J. H., *British and American Plans for International Currency Stabilization,* National Bureau of Economic Research, Occasional Paper 16, December 1943, pp. 11-12.

[33] United States Treasury officials have endeavored to maintain the fiction that the Fund does not engage in credit operations. If this were true, nations would have little motive in accepting membership. Apropos of this point, the *Federal Reserve Bulletin* (September 1944, p. 856) states: "It is important to an understanding of the Fund's operations to recognize that a country's currency, as such, is good only in the issuing country, and that when it acquires foreign currencies from the Fund and pays for them in its own currency, it, in effect, borrows these foreign currencies and gives the Fund, in exchange, demand obligations which constitute a claim on its goods and services. . . . The transaction has elements of a loan by the Fund to the country which purchases exchange from it, notwithstanding the fact that the currency paid into the Fund for the foreign exchange is money in its own country."

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currency of another member is to pay a service charge of three-fourths of one per cent, which the Fund in its discretion may increase to one per cent, or lower to one-half of one per cent. In addition, on sales of currency above its quota, a member nation is to pay an interest rate which progresses with amount and with time. In the fifth year, if a member country has drawn the full amount permitted,[34] the average interest charge, however, amounts to but 2½ per cent. In the eighth year, the interest charge comes to only 4 per cent, and in the tenth year, to 5 per cent.[35] Rates as low as these certainly will not deter borrowings.

Not only are the credits granted by the Fund subject to only a nominal interest charge but they may be extended without definite maturity. Apparently the one provision which compels a member nation to reduce its debtor position is that (Article V, Section 7) which requires it under certain conditions and with certain exceptions to repurchase at the end of each year a portion of the Fund's holdings of its currency. This requirement, which is for the primary purpose of building up the real assets of the Fund, does not apply to nations whose monetary reserves are less than their quotas, probably the very nations that would make continuous use of the Fund.[36]

The lending provisions of the Fund offer no safeguard that currencies sold to borrowing nations will be used conservatively

[34] Without waiver of the restrictive provisions.

[35] In the eighth year, when the interest charge has reached 4 per cent per annum, the Fund and the member are to consider means by which the Fund's holdings of its currency can be reduced. The charges shall rise until they reach 5 per cent in the tenth year, and thereafter the Fund may impose such charges as it deems appropriate. The fact that the Fund and the member are not directed to consider means by which the member's currency is to be reduced until the interest charge reaches 4 per cent, which it does in the eighth year, carries the implication that the loans extended by the Fund are expected to be long-term in character.

[36] Furthermore, nations, such as Russia, whose metropolitan territories were occupied by the enemy need not include in their monetary reserves gold newly mined during the first five years of the Agreement. The recapture provisions were inserted in the plan only after determined effort by the American Delegation. For a discussion of these provisions, see *Federal Reserve Bulletin*, September 1944, pp. 857-858.

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or productively. Surely no American commercial bank which extended loans in accordance with these provisions could long remain immune from criticism by the examining authorities.

The plan for the International Monetary Fund provides that, when the Fund is of the opinion that it will shortly be in a position to begin exchange operations, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on rates of exchange prevailing on the sixtieth day [37] before the entry into force of the Agreement. The par value communicated shall be the par value of that member's currency unless within ninety days the member notifies the Fund that it is unsatisfactory, or unless the Fund notifies the member that, in its opinion, the par value cannot be maintained without necessitating recourse to the Fund by the member or others on a scale prejudicial to the Fund and to the members. In case such notification is given, the Fund and the member shall, within a period determined by the Fund, agree upon a suitable par value for the currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund.

The determination of the initial par value of the currencies of member nations is extremely important. Unless the par value is determined on the basis of the purchasing power parity of currencies, and unless purchasing power parities are maintained in approximate equilibrium, member nations either must resort

[37] The date will be sometime between March 1, 1945 and October 31, 1945. If exchange rates have to be fixed before the end of 1945, the proposal, in the opinion of *The Economist* (London), is "hardly practicable" (July 29, 1944, p. 138).

"Special provisions for countries which have been occupied by the enemy allow these countries to postpone communicating the par value of their currencies until major hostilities have ceased in their territories, or until such later time as the Fund may determine, and also allow these countries and the Fund more than 90 days in which to register objections to the communicated par value. Such countries may also use the Fund before their initial par values have finally been established, in amounts and under conditions prescribed by the Fund, and may in the meanwhile alter their communicated rates by agreement with the Fund without prejudice to their ability to alter their rates after initial par values have finally been established." *Federal Reserve Bulletin*, September 1944, p. 861.

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to exchange depreciation, must maintain exchange controls indefinitely, or must have continuous recourse to the credit facilities of the Fund.

This raises a fundamental point; namely, that the initial par values of currencies cannot be determined with any degree of accuracy until war and post-war inflation has been checked, price and rationing controls removed, and until, in consequence, the internal worth of a currency may be ascertained. The initial currency pars can be maintained (in the absence of exchange depreciation, exchange controls or continuous use of the credit facilities of the Fund) only if the domestic purchasing powers of currencies move approximately parallel to one another.

If nations follow independent economic policies, which some have declared their intention of doing and which the Fund itself is given no power to prevent,[38] then stable rates of exchange and rates free from foreign exchange controls, on both current and capital account, cannot be achieved. This problem has been given detailed analysis by Professor Frank D. Graham in an essay entitled *Fundamentals of Monetary Policy*. "The plain fact is", Professor Graham stated, "that we cannot choose an exchange rate system *in vacuo*. If fixed exchange rates are an unalterable desideratum we must endeavor to obtain, spontaneously, by agreement, or by force, the constancy in the relationship between national price levels without which fixed exchange rates are a dangerous anomaly." [39]

If the domestic purchasing power of currencies moves independently in all countries, fluctuating rates of exchange are inevitable, unless, as indicated above, nations have recourse to a complete system of exchange controls, or to a continuous use of the credit facilities of the Fund. In the one case, the economy would soon exhibit all of the earmarks of totalitarianism, and, in the other case, rates would remain stable only until the Fund itself collapsed.

[38] See discussion by Professor Williams, *Postwar Monetary Plans and Other Essays*, p. xxiv.

[39] Published by the International Finance Section, Department of Economics and Social Institutions, Princeton University, 1943, p. 4.

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The nations signing the Bretton Woods Agreement apparently have not given careful consideration to the meaning or implications of stable exchange rates. In the case of a completely controlled economy, such as Russia, stable rates have no economic significance. They are but a bookkeeping device. Stable rates have economic significance only when economies are uncontrolled. This means, however, that the domestic purchasing powers of currencies must move in unison, and that nations cannot follow independent economic policies. This type of stability permits the elimination of exchange controls and leads to fluidity in capital movements and freedom in the exchange of goods. It creates an environment within which the dynamic forces of an economy are released. By failing to take cognizance of the basic requirements of exchange stability, the plan would result in a spurious type of stabilization, maintained, as indicated above, by exchange controls or loan extensions.

A truly international monetary organization, therefore, assumes that the domestic purchasing power of currencies will reflect roughly parallel movements. Under the international gold standard such parallelism existed so long as nations maintained gold or gold-exchange redemption, and so long as they did not impose exchange controls. The entire system functioned under the monetary and credit leadership of the "key nation", which, before 1914, was England. In the decade of the thirties, the internationalism of earlier periods was shattered and gave way to nationalistic economies and regional blocs. Foreign exchange and trade controls were used to isolate the various economic systems from external influences.

If an international economic system is to be reëstablished, economies cannot isolate themselves against external forces. The Bretton Woods proposal attempts to straddle this basic issue, but the issue cannot be straddled. The world must move either toward international economic arrangements, with all that this implies, or toward isolated nationalistic groups. In a world of isolated nationalistic groups, there is no place for international monetary arrangements.

The compromise attempted by the Bretton Woods proposal

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on these basic issues is nowhere more evident than in the provisions concerning alterations in exchange rates and in those concerning exchange controls. Member nations may propose changes in the par value of their currency if they are "to correct a fundamental disequilibrium". They shall consult the Fund, but the Fund shall raise no objection to the proposed change because of the domestic social or political policies of the member nation.

If the proposed change does not exceed 10 per cent of the initial par value of the currency, the Fund shall raise no objection. If the proposed change does not exceed a further 10 per cent, the Fund may either concur or object, but shall declare its attitude within 72 hours if the member so requests. A member may propose further changes, but the Fund is given a longer period in which to declare its attitude.[40]

It is unrealistic to presume that, if the nation requesting changes in its exchange rate is one of political and economic importance, the Fund would refuse its request. The nation in question would doubtless immediately withdraw from membership, and the Fund could no longer function.

In addressing the House of Lords on similar provisions in the Joint Statement, Lord Keynes stated that "the plan introduces in this respect an epoch-making innovation in an international instrument . . . it provides that the external value of a currency should be altered if necessary so as to conform to whatever *de facto* internal value results from domestic policies, which themselves shall be immune from criticism from the Fund. Indeed, it is made the duty of the Fund to approve changes which will have this effect." [41] In a similar vein *The Economist* (London) for April 29, 1944, stated (p. 561):

[40] The Fund, under certain conditions, is also given power to make uniform changes in the par value of all currencies (Article IV, Section 7). If such a change were made, the Secretary of the Treasury of the United States, in the absence of appropriate action by Congress, would invoke Sections 8 and 9 of the Gold Reserve Act of 1934. These sections permit the buying and selling price of gold to differ from the gold content of the dollar.

[41] *Parliamentary Debates,* May 23, 1944. The fact that nations are under no compulsion to adopt those internal measures essential for equilibrium might lead not only to exchange depreciation and the retention of exchange controls, but also to the imposition of import and export restrictions and controls.

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"Indeed, by implication, the new proposals seem to suggest that changes of exchange rate, instead of being, as originally, the one prohibited method of adjustment, shall be the normal means."

If the members of the Fund are free to follow domestic policies which they deem important from the point of view of their own interests and which are immune from criticism by the Fund, currency depreciation will become an accepted policy and international monetary arrangements are made impossible. The point raised by Lord Keynes strikes at the heart of the basic issue, which was outlined above, and which should be thoroughly explored before Congressional action on the Fund takes place.[42]

One of the obligations of membership is that no member shall impose restrictions on payments and transfers for current international transactions without the approval of the Fund. Furthermore, no member may engage in any discriminatory currency arrangements or multiple currency practices except as authorized under the Agreement or approved by the Fund.[43] There are a number of exceptions. A member may impose limitations on the freedom of exchange operations in a currency declared "scarce" by the Fund. A member may maintain and adapt to changing circumstances restrictions on payments and transfers for current international transactions through the transitional period. In effect the transitional period is one of indefinite length. The plan simply provides

[42] The provisions in the Bretton Woods proposal concerning changes in exchange rates greatly exceed in liberality corresponding provisions in the White plan. The White plan permitted changes in exchange rates only if these were essential to the correction of a "fundamental disequilibrium" in a nation's balance of payments and only if they were approved by three fourths of the member votes, including that of the representative of the country concerned. An exception was made of the first three years of the plan's operation, when a member country could change its exchange rate by not more than 10 per cent provided that it notified the Fund and consulted with the Fund on the advisability of this action. The increased liberality in this respect of the Bretton Woods proposal apparently was the concession demanded by the British when the Americans refused to support any proposal containing aggregate quotas as large as those contemplated by the Keynes plan.

[43] The exact relationship of the Fund to the futures contract market in the foreign exchanges is by no means clear in the Articles of Agreement.

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that five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining such restrictions shall consult with the Fund as to their further retention. In exceptional circumstances, the Fund may, if it deems such action necessary, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of all restrictions. If the Fund finds that the member persists in maintaining restrictions inconsistent with the purposes of the Fund, the member shall be declared ineligible to use the resources of the Fund. A member nation may also impose restrictions on exchange transactions with non-members, unless the Fund finds that such restrictions prejudice the interests of other members and are contrary to the purposes of the Fund. Member nations are permitted to maintain controls over international capital movements indefinitely, but no member may exercise these controls in a manner which will restrict payments for current transactions.[44]

Unless exchange controls on current account (which may be maintained through a transitional period of indefinite length) and unless exchange controls on capital account (which may be maintained indefinitely) are eventually eliminated, we shall not be able to achieve a multilateral system of international payments. As indicated above, nations doubtless will wish and will need to maintain such controls for a period after the war. But they should move swiftly in the direction of their removal, for the longer they are retained, the more they become part of the fabric of the economic life of nations and the more difficult the ultimate task will prove.

The elimination of foreign exchange restrictions, multiple

[44] Concerning the difficulty of distinguishing between transactions on current account and those on capital account, see Williams, John H., "International Monetary Plans: After Bretton Woods", *Foreign Affairs,* October 1944, p. 49, n. 15. In the publication of the United States Treasury, "Questions and Answers on the International Monetary Fund", the statement is made (p. 21): "In summary it is clear that the Fund does not expect a member country to use exchange provided by the Fund exclusively for current account purposes. So long as the exchange purchased from the Fund is used to meet an adverse balance of payments predominantly on current account, the Fund would regard a member country as fulfilling its obligations."

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currency practices and discriminatory currency arrangements depends, as do all such problems, upon the attitude of mind of member nations toward the general problem of economic control. Economic systems must be freed from such control if the exchanges themselves are to be immune. Free exchanges postulate free economies—economies which eschew all forms of totalitarianism.

The particular provisions of the plan concerning exchange restrictions and controls are not free from ambiguity and even at this late date questions are being asked as to their precise meaning. Editorially the London *Times* has inquired whether the Bretton Woods proposal would prohibit special currency arrangements within the sterling area. *The Times* had in mind an operation involving the bulk purchase of the wheat crop of Australia by the British government, payment for which would be made in a type of sterling exchange which could be expended only in England.[45] In referring to somewhat similar provisions in the Joint Statement, the British Chancellor of the Exchequer is reported to have said that they did not require the elimination of any special arrangements within the sterling area.[46] But if these arrangements continue, and England will be strongly tempted to continue them in view of her post-war balance of payments problem and the size of sterling blocked accounts, there is small possibility that the letter, let alone the spirit, of the Bretton Woods proposal can be brought to fruition and a multilateral system of payments achieved. Again we come back to the fundamental intent of nations concerning international economic policy.

There is general agreement that Article VII of the plan has

[45] September 5, 1944, p. 5.

[46] *The New York Times*, May 11, 1944, p. 5. See also statement in *The Economist* (London) in its issues of April 29, 1944, p. 561, and July 29, 1944, p. 138. The United States Treasury Department in its mimeographed study, "Questions and Answers on the International Monetary Fund" (pp. 42-44), conveyed the impression that customary arrangements and relationships within the sterling area could be maintained. In the same study (p. 50), the Treasury Department stated that multiple currency arrangements could be used to attract tourists and students, and that such use would be within the purpose of the Fund.

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more direct applicability to the United States than to any other nation. This article provides that when the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund shall formally declare such currency scarce and shall apportion its existing and accruing supply with due regard to the relative needs of members, the general economic situation and any other pertinent considerations. A formal declaration that a currency is scarce shall operate as an authorization to any member temporarily to impose limitations on the freedom of exchange operations in the scarce currency, leading thereby to a type of bilateral trade.[47]

In addressing the House of Lords on May 23, 1944, concerning somewhat similar provisions in the Joint Statement, Lord Keynes declared that they constituted one of the "major improvements in the new plan". "The Americans," he continued, "who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the inter-war years, namely the draining of reserves [gold] out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing."[48] Lord Keynes explained that the United States, for example, engaged itself to supply other nations with sufficient dollars, through loans or otherwise, to preclude the possibility of "squeezing gold out of the rest of us".

According to Lord Keynes's interpretation, the burden of adjusting international accounts is placed squarely on the shoulders of the creditor nations, in that they are expected to supply the funds needed to prevent the draining of reserves from and deflation in debtor nations. Adjustment is to come about through inflation in creditor nations rather than through deflation in debtor nations. Despite England's long record as

[47] On the relationship of the scarce currency clause (Article VII) to commercial trade agreements, see Williams, John H., in *Foreign Affairs*, October 1944, pp. 48-49.

[48] What Lord Keynes had in mind in the last clause of this sentence is not entirely clear.

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a creditor nation, Lord Keynes apparently comes to the conclusion that creditor nations bear a heavy responsibility for trade depressions and deflation. The implication is that these would not have occurred, had creditor nations been willing to extend credits and loans in the amounts demanded by debtor nations.

The threat that the provisions of the plan respecting scarce currencies would be applied to the dollar, thereby curtailing American exports, might have very important political effects. Those groups in the United States whose products are exported in large or small part might be induced to marshal their forces and demand that loans be extended the Fund in order to forestall this result. In other words, this section of the Bretton Woods proposal might easily have the unfortunate effect of stirring up class interests and antagonisms in this country. To appease those interests, the United States might make extensions of credit to the Fund through the Federal Reserve Banks. These loans would have the same effect on our credit system as comparable open-market operations and might cause the Federal Reserve Banks to lose control of the money market, thereby entailing the risks of severe inflation.[49]

V *Conclusions*

In recent years it has become fashionable to ascribe, often without important qualifications, far-reaching influences to monetary and credit policy in the regulation and control of economic life. It needs to be borne in mind that an international monetary fund, no matter how expertly contrived, cannot long offset policies of economic nationalism in the form of trade barriers, international cartels, quota restrictions, imperial preference and similar devices, all of which cause a lack

[49] This brings out the fundamental point that increases in American exports, brought about by the existence of the Fund, might be the direct result of credit expansion. The proponents of the plan would probably reply that we shall have the right, in turn, to draw upon other currencies. But this right possesses importance only in so far as other member nations have goods which we wish to buy and which they are willing to sell, or only as American tourists wish to visit and can secure visas to visit other member nations in order to consume goods and services at the source. In other words, our right to draw upon other currencies possesses validity only as nations remove all controls over the foreign exchanges, foreign trade and tourist traffic.

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of fluidity in economic life and generate a rigidity in the price structure. Nor can such a fund enable nations to maintain the international prestige of their currencies where this is not justified by economic considerations. Nor can such a fund maintain living standards in nations where they have fallen by reason of a loss of foreign investments, depletion of natural resources or destruction by war. In short, an international monetary fund cannot take the place of constructive fiscal, monetary, industrial and commercial policy.

These observations do not mean that monetary policy and arrangements are unimportant. An efficiently functioning monetary and credit system which, in its domestic phases, checks inflationary developments and, in its foreign phases, results in stable rates of exchange and rates of exchange free from controls can be of great significance. Its services, though of great importance, are mainly passive in character. Their function, according to the familiar passage from Adam Smith, is to provide "a sort of waggonway through the air" [50] over which goods may flow to the markets of the world.

Monetary ointment, as a later British economist wrote, will not of itself cure the basic ills of the world. The political and economic difficulties which will beset the post-war world cannot be solved through the extension of credits in accordance with a timetable and on an automatic basis. To attempt to do so will foster rigidities within economic systems and convey the illusion that self-correctives are not needed.

This means that the intricate machinery for the International Monetary Fund proposed at Bretton Woods offers no substitute for the prerequisites of stabilization. These include the attainment of political and financial stability, provision for the needs of the transitional period, a constructive handling of the war debt problem, the clearing up of Britain's external financial problems, and the adoption of liberal trading policies. That there is no short cut to stabilization is admitted by the proponents of the Bretton Woods proposal. Their actions belie their words, however, in that they have devoted their entire time to the devising of monetary mechanisms rather than to the problem

[50] Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations,* Everyman's Library, Volume I, p. 286.

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of evolving solutions for basic economic problems. They offer the explanation that these different problems constitute a circle, which can be cut at any point. The analogy, however, is not an accurate one. In so far as any physical analogy can be drawn, these different problems in effect constitute a pyramid, the apex of which would be represented by international monetary and credit arrangements. The Bretton Woods proposal would fashion the apex before the foundations are constructed or even designed.

The first of the many prerequisites for monetary stabilization is the attainment of political stability. Many of the United Nations will not be confronted with this problem. Others, particularly those occupied by the enemy, will, by reason of political cleavages, find it extremely difficult to attain political stability in a reasonably short period.

A second prerequisite will be the attainment of internal financial stability. This involves the checking of inflation, which itself implies the severance of the commercial banking system from deficit financing, the funding of the floating debt and the unpegging of interest rates. This problem concerns all of the United Nations in greater or lesser degree, and, until it is solved, the internal worth of currencies cannot be ascertained. The difficulty of determining the initial par value of currencies in the absence of the above measures has been illustrated in recent attempts to stabilize the Italian lira and the French franc.

A third prerequisite concerns the relief and the reconstruction needs of the transitional period. Careful consideration should be given to the urgency and size of these needs and priorities established on the basis of the willingness of the United Nations to care for these requirements. This problem calls for solution before currencies can be stabilized, and before a stabilization fund can be established with the assurance that it will not become frozen in meeting, either directly or indirectly, the needs of the transitional period.

Still another problem concerns the disposition of war debts and the question of reparations. Problems arising from such sources bedeviled the world after the last war. The United States can contribute to their solution by cancelling the debts

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remaining from World War I, by repealing the Johnson Act of 1934, and by pursuing a generous policy relative to the net amount due on Lend-Lease obligations. Other nations can make their contribution by not demanding reparations payable in money.

The one problem basic to all others in the stabilization of world currencies is England's post-war financial situation. This is always given emphasis by those who stress the "key-nation" approach. It is a problem which must be solved before currencies can be stabilized, and which must be solved whether one adheres to the "key-nation" approach or subscribes to the type of global approach proposed in the Bretton Woods plan. Solutions for the problem, as indicated earlier, have been suggested by Mr. Fraser and Mr. Aldrich. Once a solution is effected, the dollar-pound rate can be stabilized, and once stabilized, this rate should not be changed. Changes in the exchange rates of the key nations work great harm. The great element of stability in international financial relationships in the Victorian period was the stability of the pound in terms of gold. Other rates changed, but the pound remained as the one currency in terms of which exporters and importers could with confidence transact their business.

The final problem, one that is fundamental in importance, is the matter of commercial policy. Long ago this country should have entered into conversations with the British Commonwealth of Nations, and with those United Nations and neutral Powers which still profess belief in the private enterprise system, on the elimination of trade barriers. All nations must make reciprocal adjustments, if international trade is to be freed of restrictions. The adoption of liberal trading policies is basic to currency stabilization. It is the foundation upon which the entire superstructure rests.

The fact that these prerequisites have not been attained accounts for much of the confusion concerning the purposes and functions of the International Monetary Fund. One remains in doubt whether the Fund is to function primarily for the purpose of exchange stabilization or for that of economic development. Are its loans, whether for currency stabilization or economic development, to be of a short- or long-term char-

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acter? Moreover, one does not know whether special currency arrangements are compatible with the purposes of the Fund. This is a question which, as indicated previously, *The Times* of London has asked recently. In an editorial in its issue for the 5th of September, *The Times* inquired whether the plan permits or precludes commercial arrangements between pairs or groups of countries providing for a balanced exchange of stipulated quantities of exports and imports. "Legitimate anxiety", it stated, "has been expressed over the possibility of a divergence of interpretation and of consequent misunderstanding on what may be a matter of vital concern to this country . . . ."

Still in doubt is the precise bearing of the operations of the Fund on internal economic policy. *The Times* (London) puts this question in an editorial in its issue for the 4th of August: "The maintenance of the national income and level of employment is, since the publication of the White Paper last May, an overriding purpose of British economic policy. The Bretton Woods scheme will be judged in this country primarily by the degree to which, without prejudice to the prosperity of others, it will promote or hinder the fulfillment of that purpose . . . ." This question goes back to the problem raised earlier in the paper concerning the possibility of reconciling external stabilization with divergent internal policies.

Finally, the question still remains as to the extent to which the Fund will be used. The *Federal Reserve Bulletin* states that ordinary transactions will take place through the usual channels,[51] and that the Fund would handle only net balances not cleared in the market. Does this mean that the Fund would be pushed to one side and used only by nations that are weak economically? If the Fund were thus ignored, could it exercise much influence on the problem of currency stabilization? Or, contrary to the observation in the *Federal Reserve Bulletin*, is it not possible that all transactions might inevitably be routed through the Fund in order that the recapture provisions of the plan could be enforced? If this were the final result, exchange controls on both current and capital account must be retained where they now exist and must be imposed where they do not exist in order to enforce the plan's provisions.

[51] September 1944, p. 851.

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These various questions would not have arisen, if the prerequisites to stabilization had been achieved. In the absence of a solution of basic problems, no multilateral system for the exchanges can be evolved. The conclusion, therefore, is inescapable that the plan for the International Monetary Fund should not be adopted by the American Congress.

The alternative to a rejection of the Bretton Woods proposal is not chaos. An alternative approach would endeavor to find solutions for the prerequisites of stabilization listed above and, in particular, would comprise the following steps:

1. Consideration of and provision for the financial needs of the transitional period.

2. The immediate convening of a trade conference by the United States, to be attended by those United Nations and neutral Powers professing belief in the private enterprise system, for the purpose of eliminating barriers to international trade.

3. Following the evolution (as a direct consequence of this conference) of a constructive plan by the United States and the British Commonwealth of Nations for the elimination of trade barriers, the extension of financial aid by this country to England along the lines suggested by Mr. Fraser and Mr. Aldrich.

4. The reorganization of the Bank for International Settlements, or the establishment of a similar institution.

> There is nothing in the record of the Bank for International Settlements to justify its liquidation. If, however, prejudice against the institution is too strong to be overcome, then a similar institution might be organized. Its capital, of perhaps $500,000,000, could be paid in in gold and owned by central banks. Its functions would be those of extending seasonal stabilization credits; serving as a meeting place for central bankers, where they could give consideration to credit and monetary policies and other problems of mutual interest; collecting pertinent monetary and financial data; and engaging in research.

Once the above measures have been taken, the post-war credit needs of nations should receive careful study. Many possess

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a sufficient supply of gold and dollar exchange to render them financially independent. Less fortunate nations may have to borrow, and the credits which they will need should be supplied, in so far as is possible, by existing institutions.

American commercial banks are in a position to care for certain of these credit needs—those pertaining to self-liquidating credits and to short or medium-term loans extended against the collateral of gold, deposits and securities. An example of a medium-term collateral loan is the recent credit of $100,000,000 extended to the Dutch government. In addition, American commercial banks, manufacturers and exporters might unite in the establishment of an export guarantee system.

Not all nations, once political stability has been attained and internal inflation checked, will need to borrow to effect the external stabilization of their currencies. It has been suggested that those nations standing in need of dollar stabilization loans, if these cannot be obtained in the private market, might secure such loans from the Export-Import Bank, if its borrowing powers were raised. Likewise the Export-Import Bank could extend long-term loans for meritorious purposes of economic development, where such funds could not be obtained privately.

The point is that the credit needs of the world should not be approached from a global point of view. Credit extensions should be made to fit specific needs. The type of funds loaned should be similar to the type of funds demanded.

In the financial reconstruction of the world this country has a great responsibility and opportunity for exercising constructive leadership. Our greatest contribution can be rendered through our willingness to make substantial reductions in our tariff rates and to establish a dollar, free of all foreign exchange controls, in which the other trading nations of the world can have confidence. Altogether too much attention has been given to monetary mechanisms and too little to the basic economic problems which must be solved before international trade and capital movements can again be resumed and the international stabilization of currencies effected.

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THE MUDDLE OF THE THIRTIES

I

THE nineteen-thirties opened in the shadow of the great depression, and during the next three or four years this shadow deepened and spread. It brought heavy unemployment and idle capacity to the great industrial nations and it brought very low prices and incomes to the countries exporting agricultural products. Nearly all the penal tariffs, import quotas and prohibitions, exchange depreciations, exchange controls, and other barriers to world trade which came into being during this period were introduced by the various countries in order to fight the evils which the depression brought in its train. We can see now that their policies were short-sighted and mistaken. The defensive measures of one country, especially of an important trading country, inevitably reacted upon others, and often compelled or provoked them to retaliate. In the end, the first country lost instead of gained, even from its own nationalist standpoint. But this was far from obvious at the time. A government saw distress, unemployment, bankruptcy, within its borders. Something had to be done. The arguments for the measures it adopted seemed powerful and convincing. Often there appeared to be no possible alternative. Yet the result was an orgy of economic nationalism, which persisted throughout the decade. The volume of world trade remained well below the pre-depression level, and most of the exporting industries and districts of the world continued to suffer either from low incomes or from heavy unemployment or from both.

Some of the smaller countries, such as Belgium and Denmark, were more sinned against than sinning, but they alone were powerless. They could not turn the rest from their *sauve qui peut* attitude. Each of the others acted as if the depression was something coming from outside, like a bliz-

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zard or tornado, against which it had to defend itself as best it could. Yet, in fact, the depression was a man-made phenomenon. It could and should have been conquered by common action. Why did not the nations get together?

Rather belatedly, they did. The World Economic Conference met in London in the summer of 1933. It was completely and utterly wrecked by President Roosevelt's pronouncement that the United States was determined to follow its own independent monetary and economic policy. Readers may remember the remark of the oilman who keeps popping up in the pages of Clare Boothe's *Europe in the Spring* People blame this and that for the muddle, he says, but it is funny that nobody thinks of blaming the person really responsible—Franklin D. Roosevelt. Nowadays we rightly regard the President as a great and wise statesman. Yet there is some force in the oilman's observation.

The thesis of this article is that economic nationalism is a beggar-my-neighbor policy and does not pay. We shall illustrate it by discussing agrarian protection in western Europe and the external monetary and trade policies of Great Britain and the United States. The first of these three topics must be treated at some length, although even so our account will be very compressed. It raises issues which will be of great importance after the war.

II

An outstanding feature of the great depression was the heavy fall in the price of most agricultural commodities. Here we are concerned mainly with foodstuffs, for it was mainly against imports of foodstuffs that high protective barriers were raised. The most important foodstuff from the standpoint of international trade, was wheat.

The British price of Canadian wheat averaged 51*s.* 4*d.* in 1929, 37*s.* 6*d.* in 1930, and 26*s.* 3*d.* in 1931. By 1932 the world prices of cereals, sugar, dairy produce and vegetable oils were nearly all down to half, or less than half, their pre-slump levels. Let us see how this came about.

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The surface explanation, for most agricultural commodities, is that stocks had been accumulating. But of course this was merely the visible symptom of the real trouble, namely, that production was outrunning demand.

When people become better off they spend more on goods and services which they previously regarded as luxuries or semi-luxuries. People at a "western" standard of living are unlikely to spend more on the simpler foodstuffs. They may spend less. For example, the rising trend of the general standard of living in Great Britain was accompanied by a fall in the per capita consumption of wheat flour: from 252 pounds a year in 1861-65 to 212 pounds in 1936. Until recently the fall in consumption per head was more than offset by the rapid growth of population, but this has now ceased or considerably slowed down in most western countries.

Meanwhile technical progress has been taking place in agriculture. One man's labor on the land has been providing enough food, with the passing of time, for more and more mouths. Whereas technical progress in the manufacture of motorcars, for example, may lead to a fall in their prices and a great increase in their sales, so that more workers than before can be employed in the industry, this does not apply to most branches of agriculture. As we have seen, there is not much scope for expansion among western peoples in the per capita consumption of the staple foodstuffs. Hence, broadly speaking, the result of progress in the art of agriculture is that fewer workers are needed on the land. The decline of the agricultural population is a symptom of material progress; from the purely economic standpoint, it is a matter for congratulation. Fewer workers are needed to grow food; more are available for producing other things, thereby raising the standard of living. But this means, still speaking very broadly, that agriculture is a declining industry and tends to be relatively depressed. For too few farmers give up agriculture and turn to some other occupation. Agriculture is therefore overcrowded. Although the more efficient farmers do well, the general level of profits and wages is lower than in other branches of production.

During the nineteen-twenties technical progress in agriculture was very rapid. But it reduced costs more in overseas

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countries than in western Europe. For example, the new and improved types of agricultural machinery could be, and were, used more widely and to better advantage in the New World, where land was plentiful relative to labor. We may quote two illustrations of how they reduced costs in Canada. A man with four horses plowed on the average 3 acres a day at a cost of $2.33 an acre; a man with a three-plow tractor covered 6.7 acres a day at a cost of $1.52 an acre. In the spring-wheat territories of western Canada "1925 was the first year in which combines of the modern type made their appearance in any considerable numbers. The costs, estimated on the basis of one machine harvesting 600 acres, each yielding twenty bushels, were 9½ cents per bushel for the whole operation, as against 17½ cents per bushel by the old method of binder followed by thresher."[1] In western Europe the larger number of relatively small farms into which the land was carved up, and the much lower levels of wages, made mechanization more difficult and less cost-reducing. The same applies, on the whole, to other aspects of technical progress. Thus the discovery of more prolific types of sugar cane benefited tropical producers as against European and other growers of sugar beet, and improvements in dry-soil farming could be applied mainly in Canada.

We can now see why agricultural prices were sagging toward the close of the twenties and why European producers of most foodstuffs were finding overseas competition more difficult to meet.

When the prices of foodstuffs began to tumble, most European countries protected their farmers by placing severe restrictions on imports. The protecting countries most important as markets were Germany, Italy and France, but most of western Europe followed the same course. Belgium and Denmark were notable exceptions. Agrarian protection had been increasing before the great depression. In 1924, 64 per cent of the world imports of wheat entered free; in 1929 only 39 per cent. In 1925 Mussolini began his "battle of the grain", to make Italy more self-sufficient in cereals. Both Germany and

[1] *The Agricultural Crisis*, League of Nations (Geneva, 1931), vol. II, pp. 14-15.

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France substantially raised their import duties on meat in 1927 and 1928. But all this was quite dwarfed by the formidable barriers erected during and after 1930. We need not give details of the various weapons—high tariffs, import quotas, milling regulations, exchange control and so forth—which each country employed. The results speak for themselves. By 1933 imports of wheat into the principal European importing countries (excepting the United Kingdom) had dropped to half their 1925-28 level; imports of beef and veal and cattle had fallen to one-third. Germany, the great continental importer of butter, was taking only some 60,000 tons as against 100,000 before the slump.

The "protectionist" countries maintained severe restrictions on the imports of most foodstuffs throughout the thirties, even after world prices had made some recovery. The most important commodity affected was wheat. Most European countries approached self-sufficiency in wheat. Indeed, France at times, when her harvests were good, *exported* substantial quantities. The world price, which she received for her exports, was less than half her internal price; the French government made up the difference.

A full discussion of this policy of agrarian protection would need far more space than we can spare. We have made broad generalizations. In fact, relevant circumstances varied between countries and between commodities. Opinions may reasonably differ about what would have happened if some other policy had been adopted; and two persons who agree upon what happened, and upon what would have happened under different policies, may yet pass quite opposite verdicts because they disagree as to which *ends* are more desirable.

If the sole aim is to make the general standard of living as high as possible, then agrarian protection as a long-term policy is stupid. It prevents products from being grown where they can be grown with less effort and therefore more cheaply. It compels people in the protected countries to pay more for their food in order to keep more persons than are really needed at work on the land. It may prevent farmers from switching over to those products, such as fruit and vege-

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tables and dairy produce, for which the demand is expanding.

All this happened in the protected countries of Europe. They grew more wheat; and the New World, where wheat could be produced far more cheaply, was compelled to grow less. They grew sugar beet and kept out the much cheaper cane sugar of the tropics. For these and other commodities technical progress had turned the balance of advantage in favor of overseas countries; Europe refused to accept its benefits. The result was that the prices of many commodities—such as cereals, sugar, meat and butter—were much higher in the protected countries than in the world market. This left their consumers less to spend on other things. Thus the growing demand for such things as fruit, vegetables, poultry, milk and eggs was checked; this, together with the artificial stimulus given to the production of wheat, sugar, and other highly protected commodities, held back the changes in output that would otherwise have taken place.

There is more to be said for agrarian protection as a temporary measure to meet the very serious emergency brought about by the collapse of agricultural prices. It can be urged that most farmers could not compete with imports at depression prices, that many of them would have been ruined and deprived of any occupation, their land being abandoned to weeds, if the government had not protected them. Hence, it can be claimed, agrarian protection was a kind of "public works" measure, designed to maintain employment and incomes. This argument, however, is often overstated. Agrarian protection itself greatly intensified and prolonged the fall in prices. Many farmers, working on their own, would have carried on despite a big cut in their incomes (overseas farmers did so), although some might have switched over to products that could compete better with imports. After all, Belgian agriculture survived fairly well with little state assistance. Governments could have relieved serious hardship by compassionate grants to individuals and might have tackled the unemployment problem in other ways.

The preceding paragraphs have assumed that the sole aim should be to raise the general standard of living. Many people,

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however, refuse to accept that assumption. They believe that the nation's agriculture should be preserved even at some sacrifice of material prosperity. Nobody can prove them wrong, for an expression of opinion such as this (a "value-judgment") is by its nature incapable of being proved or disproved. But we may ask some questions.

Is this view based partly on the belief that countryfolk are healthier than townsfolk? If so, it rests on very weak foundations, for statistical evidence gives little support to this belief. The same applies to the belief that people are happier in the country; in fact, many farm workers long to escape to the comforts and amenities of a town.

What exactly is desired? Is it a large population living in the country? The best way to get this is to stimulate, by providing such facilities as cheap electricity and good roads, the movement of industries into rural surroundings. For the numbers in agriculture must decline. Protection in Europe has slowed down the decline but has not prevented it; German agriculture, for example, lost over a million workers between 1933 and 1939.

If what is desired is not merely a populous countryside but also a flourishing agriculture, we may still ask why the farmers of western Europe could not be encouraged to switch over more to commodities for which the demand is likely to expand. For these are the very commodities in which nearness to the market gives European farmers the most shelter from overseas competition. Are cows inherently less desirable than wheat? If not, would not government subsidies, enabling poorer people and children to consume more milk, be a better way of helping agriculture than high protection on wheat?

But asking questions like these is shadowboxing in the dark. We must accept the fact that if somebody declares that he favors agrarian protection and supports his opinion only by vague phrases—such as " the peasant proprietor is the backbone of the nation and must be preserved ", *le blé, c'est une chose sacrée pour nous français,* " the mystical joys of working on the soil in close communion with nature ", " the land must not die "—we have no effective answer. We can only make sure that he

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fully realizes what his policy costs—how much it keeps down the general standard of living.

Now, at last, we can show how agrarian protection affords such a striking illustration of our thesis. The countries which adopted it may have thought that the cost was worth while, although a cynic would suggest that the great political influence of their numerous farmers had something to do with their decision. But they took the decision after balancing the advantages and disadvantages to themselves alone. Had there been a world planning authority, acting in the best interests of the world as a whole, it would certainly have rejected this course. For the loss and suffering thereby imposed upon the overseas and Danubian countries, which played no part in the calculations of the protectionist countries, far outweighed the dubious "gain" to the latter.

The former, the agricultural exporting countries, were very hard hit by agrarian protection. The prices of their exports were forced down, by this contraction of their markets, to much lower levels. Most of their farmers, having no alternatives to which they could readily turn, perforce went on producing. But their incomes were reduced to half or less than half what they were before the depression; they found it difficult or impossible to pay their debts; the fall in their expenditure led to unemployment and idle capacity in the industries of their own countries; and there was widespread distress and dislocation.

Before the depression most agricultural exporting countries —except, of course, the United States—had been increasing their imports, for they had been borrowing abroad. Out of a total of nearly ten milliards of dollars of new foreign securities issued during 1924-28 on the four chief capital markets of the world (the United States, the United Kingdom, the Netherlands and Switzerland) over half was issued on behalf of agricultural countries outside Europe. This flow of capital ceased in 1929. These countries were then confronted with the problem of creating a surplus of exports over imports, out of which they could pay interest on their foreign debts. But it was impossible for them to maintain, let alone increase, the value of their exports. On the contrary, this was greatly re-

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duced by the fall in agricultural prices. The only possible solution was a most drastic curtailment of their imports. In any event, they would have spent much less on their imports, for their incomes had fallen and the flow of loan money from abroad had ceased. But on top of this they checked imports by letting their exchange rates fall and by imposing very high tariffs and import quotas and prohibitions. To what extent they were absolutely compelled to do this is perhaps a matter for debate. But who can blame them for trying to protect and even expand their own industries when faced with shrinking markets for their exports and with unemployment and distress at home? They, too, could practice the art—not so noble—of economic self-defense.

Their drastic curtailment of their imports was a direct blow to the industrial countries, for their imports were mainly manufactures. Between 1928 and 1932 the gold value of exports from industrial countries to agricultural countries outside Europe declined by no less than 70 per cent. The European countries which had adopted agrarian protection naturally suffered with the rest.

We can now see the full consequences of high agrarian protection. It did protect agriculture, notably the production of cereals and sugar and meat, in the countries adopting it. It did help their farmers over a difficult time. On the other hand, it held down the standard of living in these countries and prevented or checked them from adapting their economic structure, and in particular their agriculture, to world conditions which had permanently changed. It inflicted severe loss and distress on the agricultural exporting countries overseas (and in southeastern Europe). It compelled or provoked the latter to retaliate by drastically curtailing their imports, and this was a severe blow to the exporting industries of the countries which had adopted it. The curtailment of imports was accompanied by falling exchange rates or exchange restrictions or mounting tariffs and prohibitions, which increased the risks and uncertainties of international trade. Moreover, agrarian protection not only forced down the world prices of foodstuffs to lower levels; it also delayed for years any substantial recov-

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ery from those levels. In short, it intensified and prolonged the world depression against which it was intended to protect the countries adopting it. Who can doubt that if all this had been foreseen, and if common international action could have been arranged, each country would have acted differently—for the benefit of all? In fact, it was all a hopeless and pitiful muddle.

One major point remains. "Defence", said Adam Smith, "is more than opulence." What about the argument that agrarian protection was necessary to make the countries in question more nearly self-sufficing and therefore better prepared to face war?

One answer to this is that the best way to prepare for war is to build up strong armaments, and that more resources will be available for this purpose if full advantage is taken of cheap imports of food. Moreover, the wisest course might be to hold very large stocks of such commodities as wheat, sugar, and whale oil, and to have a very large "herd on the hoof" which could gradually be killed off, the pastures being plowed and used to grow cereals and potatoes and so forth, as the war went on. But we shall not expand this answer. For defense played little part among the motives for agrarian protection in Europe between 1929 and 1932, and we hope that after this war adequate means will be found to safeguard nations from aggression.

We must refer, however, to the special case of Germany. She suffered, like other countries, from the depression, and she adopted agrarian protection and exchange control. Then, in 1933, Hitler came to power. This introduces a new and sinister element into our picture, for his purpose was to prepare for war. With that object he retained exchange control, using it as an instrument of central planning; he deliberately made Germany less dependent on imports, and fostered her trade with neighboring countries in southeastern Europe. It is all very well to point out that his economic policy, while greatly increasing employment in Germany, kept down the German standard of living. It is true that Buna rubber and oil from coal were very expensive to produce. It is true that a thousand workers in the British export industries procure as much food, imported in exchange for their products, as two thousand

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German agricultural workers produced directly from their soil. But those who stress such facts remind me of the man who grumbled because a rival pair had bid and made seven no-trump in a bridge tournament, although the woman with the lead had an ace. "She did not double", he complained, "and she did not lead her ace." "You are wrong to indict her on two counts", he was told. "If she had made up her mind not to lead her ace, she was quite right not to double." In the same way, once Hitler had decided to prepare for war, knowing that he would be blockaded, he was right to follow the economic policy which he did. It was the decision to prepare to wage war which constituted his monstrous crime—and blunder.

We may point out, however, that the deadly nightshade appears among the flowers of folly only if it finds a suitable climate and soil. The economic nationalism of other countries, the Ottawa system, the closing door in the colonies, lent color to the propaganda that Germany was economically encircled. It is now plain that the failure of the World Economic Conference destroyed the last chance—if it was a chance—of peaceful and friendly coöperation between Germany and the rest of the world.

III

We turn to Great Britain. During the great depression, she took two very spectacular steps by abandoning her long established policies of adhering to the gold standard and (on the whole) to free trade. She went off gold and set up an Exchange Equalization Account. She adopted a general protective tariff, supplemented by import quotas, and this enabled her to set up the Ottawa system of imperial preference and to bring pressure on other countries to concede advantages for British exports.

As usual, the case for economic nationalism was strong. During the twenties Great Britain was lagging behind her economic rivals. Her share in the world's exports was falling, and her unemployed, mostly in the exporting industries and districts, seldom numbered less than a million. With the depression her exports fell heavily, important home industries

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(including iron and steel and agriculture) were in distress owing to the competition of imports at slump prices, and unemployment rose toward three million. In the realm of theory, Mr. Keynes and others had declared that the troubles of her exporters were due largely to the overvaluation of the pound sterling and had exposed the naïve belief that every import automatically results in a corresponding export. Other countries were increasing their barriers against imports, including those from Great Britain and her Empire. The Dominions had long given preference to goods coming from Great Britain and were demanding preferences from her; but she could give them only by taxing similar goods coming from non-Empire countries. Thus there were several strong arguments for a change of policy.

Great Britain went off gold in September 1931. Whether she was compelled willy-nilly to take this step, or whether different and stronger measures would have enabled her to stay on, is a matter for debate. The great majority of experts believe that anyway she was wise to go off. A powerful but rather technical argument in favor of their view is the following. Her exports had fallen; therefore her imports had to be cut down. To cut them down by deflation, implying bankruptcies and increased unemployment, would probably have required a relatively large fall in her total money income, for her imports were mainly more or less essential foodstuffs and raw materials.

My own view is that she both could and should have stayed on, but, as I am in a very small minority, I shall say nothing in support of it. I do urge, however, that she should have quickly returned to gold at a somewhat lower parity. This action might have stabilized exchange rates; had the devaluation of the pound been only a moderate one, it might have prevented future devaluations of other currencies, notably the dollar and the franc.

In fact, the opinion rapidly gained ground in Great Britain that her abandonment of the gold standard—which a National Government had been elected to prevent—was a blessing. She had shaken off her golden fetters. She could now permit

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the exchange value of the pound to fall, thereby promoting British exports and protecting home industry against imports, to whatever extent seemed desirable.

British wages and other costs did not rise to neutralize this "competitive advantage" to British exporters. Moreover, most of the British Empire and a number of other countries remained linked to sterling at the old level. Hence the fall in the pound was a heavy blow to the countries remaining on gold. Goods produced in the "sterling area" were offered for sale, in all markets, at much lower gold prices than before. This imposed severe deflation on the "gold" countries; their prices and incomes had to fall to meet this competition. Moreover, the claims of their industries for higher protection were greatly strengthened.

The British Exchange Equalisation Account was set up to smooth out temporary fluctuations in the exchange value of sterling. As time went on, very large movements of "refugee capital" took place. Much of this came to Great Britain. Its owners feared that their own currencies (for example, francs) would fall in value; they thought that sterling, which had already fallen, was comparatively safe. Had nothing been done, these inflowing funds would have pushed up sterling. Hence the Account absorbed them, giving sterling in exchange for foreign currencies, which it turned into gold. (By the spring of 1938 it had bought over 100 million ounces of gold.) Unfortunately this gave the impression that the Account was deliberately keeping down sterling, in order to help British exports. This impression played some part in inducing other countries to retaliate by protective measures and by promoting their own exports through devaluation or subsidies.

The British tariff was on the whole quite moderate. But Great Britain was a very important market; she bought about a sixth of all goods entering world trade. Hence her tariff, and her quotas, did inflict considerable hardship on foreign countries. We may mention particularly Denmark, from whom she imported only about half as much bacon as before; the Argentine, who was the chief sufferer from her quantitative restrictions on meat imports; and the countries in the European

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steel cartel, Belgium, Luxembourg, France and Germany, whose exports to Great Britain (mainly of semi-finished steel) were drastically cut down.

Under the Ottawa Agreements the proportion of British imports coming from the Empire increased from 29 per cent in 1930 to 40 per cent in 1938. Foreign resentment against imperial preference was increased by the attitude of Great Britain toward proposed low-tariff agreements between neighboring countries, such as Holland and Belgium or the Danubian states. She insisted on her most favored nation rights and thereby scotched all such projects. Her Dominions wanted adequate protection for their own manufacturing industries, so that on the whole they gave increased preference to Great Britain mainly by raising their duties on foreign goods above pre-slump levels. Moreover, the Ottawa Agreements virtually prevented Great Britain and most of her Dominions from reducing their tariffs to foreign countries on important classes of commodities.

Great Britain tried to promote her exports by trade treaties. She did obtain special privileges from countries to whom the British market was of vital importance. This added to the difficulties of her rivals in trying to sell to these countries.

Nobody will deny that British monetary and commercial policies inflicted losses on other countries. But did they help Great Britain?

The predominant view is that they did. Certainly Great Britain made a striking economic recovery. By 1937, output, employment, profits and real wages were all substantially higher than in 1929, the peak pre-slump year.

Yet *post hoc* is not always *propter hoc.* If it were, then the British recovery should be attributed partly to balancing the budget and cutting down on public works. I do not think that most opponents of the gold standard and free trade would welcome that conclusion. Let us therefore try briefly to trace causes and effects.

The two outstanding features of the recovery were the building boom and, later, rearmament. Neither obtained much help either from protection or from the depreciated pound. Indeed,

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perhaps the main reason for the former was the low price of imported food, which increased the spending power available for housing. Great Britain benefited from the misfortunes of overseas agricultural countries and—unlike France and Germany and Italy—she did not deny herself this benefit by excluding their products, although this was mainly because her Dominions could supply most of her needs and she did not choose to tax or greatly to restrict her imports from them.

Employment in protected industries was doubtless greater than it would have been under free trade. But it did not expand. On the contrary, the only inquiry made into this matter (by the Import Duties Advisory Committee) showed that between 1930 and 1934, employment in protected industries fell by about 50,000. Over the same period, employment in other industries increased by some 400,000. These figures do not include agriculture. This received some protection (although not against the Empire) and other assistance, yet the numbers engaged continued to fall. It is true that some investment was stimulated in protected industries, notably in iron and steel, but it is difficult to show any considerable expansion in employment or activity due to increased protection from foreign competition. Her rearmament program required greatly increased imports of iron and steel.

What about British exports? Advantages for them were obtained in the Empire and in certain foreign markets, notably in Scandinavia and the Argentine. Yet the brute fact remains that throughout the thirties the volume of British exports was 25 to 30 per cent below the 1929 level (except in 1937, when it was only 20 per cent below). Unemployment was greater than in the twenties, and most of it was in the exporting districts. The tariff and the depreciation of the pound had *not,* as was promised, cured the troubles of British export industries. On the contrary, the British recovery was a home recovery. It took place in spite of her economic nationalism rather than because of it. The "competitive advantage" obtained for British exports, or the "competitive disadvantage" removed, by going off gold came to nothing. Other countries retaliated by protective measures, and as time went on they devalued or

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depreciated their own currencies so that within a few years the pound sterling stood higher than ever in relation to most currencies. Great Britain had merely played her part in creating a period of uncertainty and instability and restrictionism in the economic world.

IV

What about the United States? She stopped lending abroad; she raised her tariffs; and she devalued the dollar. These actions were not exactly contributions toward international peace and prosperity. Yet there seemed very strong grounds for them.

We must remember that the depression swept upon the United States with terrific violence. She was hit far worse than most countries. All sections of the community suffered. Security prices collapsed, there were well over ten million unemployed, many of her farmers were ruined and could not pay their debts, and—largely for this reason—a number of local banks were in serious difficulties. There seemed every excuse for desperate measures. This applies particularly to the devaluation of the dollar, which on the face of it was a flagrant and unnecessary piece of economic nationalism. But let us take our points in order.

During the years 1925 to 1929 a number of countries, mainly in Central Europe and South America, had been borrowing on a large scale from the United States. This had raised their money incomes and expenditures, but a considerable part of the loans had been used in ways which did little to increase output. American investors had been incredibly careless about what became of their money. By 1930 it was dawning upon them that much of it would never be repaid. Naturally, they decided they had had enough; we cannot blame them. But the borrowing countries were rather suddenly placed in a worse position when the stream of American money became a trickle or dried up completely. The moral is not that American investors should not lend abroad—far from it. The moral is that they, or the government, should take care that their money is used honestly and wisely.

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The notorious Hawley-Smoot tariff was imposed in the middle of 1930. Duties on many items were substantially raised; some became almost prohibitive. Thus the second largest market in the world was made much more difficult to enter. We have pointed out that very heavy unemployment and great distress prevailed in the United States. But to other countries, also facing economic adversity, this was more like a blow in the face than a helping hand.

Moreover, it may well be asked in what way the United States expected her debtor countries to pay their interest. She did not want a lot of foreign banknotes. Her debtors were not gold producers. They could pay only in goods. Obviously they could send her goods, from the dollar proceeds of which they could meet their obligations, only if she was prepared to have a surplus of imports over exports. But this was exactly what she did not want. She raised her tariff for the very purpose of keeping down her imports. Surely it was illogical of her to complain that her debtors were defaulting!

We turn to the devaluation of the dollar. When President Roosevelt came to power in March 1933 he decided not to keep the dollar tied to gold, as it had been, but to let it fluctuate. In July he told the World Monetary and Economic Conference that the United States felt obliged to follow an independent monetary policy. In January 1934 the dollar was formally devalued, being linked to gold again at some 60 per cent of the old parity. There was no certainty, however, that this was final; it could be devalued still further if the President thought this desirable.

The dollar could have been kept on gold at the old parity. It is true that for a time the United States tended to lose gold, but this was largely because people expected that the value of the dollar would be deliberately reduced. Her stocks of gold were very large and could easily have met all demands upon them had the Administration determined to stay on the gold standard without devaluing. In fact, during the latter part of 1933 the Administration did its best to keep the dollar down by buying gold and silver from abroad. The new parity—of 35 dollars an ounce—was far below equilibrium level. This is

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obvious from the very large inflow of gold which has taken place since, mainly because America bought so much less from other countries than she sold to them.

The fact is that the dollar was devalued because the President hoped that this would raise prices within America and because he apparently believed that higher prices, however brought about, would promote recovery. This is the key to much of his policy at that time; he was badly advised. Let us repeat, however, that he had every excuse for trying desperate measures. The depression had been getting worse, in the United States, as time went on. Over five thousand banks had failed during 1930-32, and in March 1933 the President had to proclaim that all banks would close their doors for a week. The number of unemployed had risen to some fourteen million. Almost any new experiment seemed worth trying. Although the proceedings of the World Conference fizzled out after the cold water of the President's announcement, they might not have achieved much anyway. If other countries, notably France, had been willing to carry out a coördinated policy of monetary expansion, the President might have coöperated. In short, it is not easy to apportion blame. All we can say is that the depreciation of the dollar destroyed any chance of a general stabilization of exchange rates at that time and made it more difficult for other countries to sell to the United States or to compete with her in common markets.

Its effects on the economy of the United States are difficult to disentangle from those of all the other important measures which formed part of the New Deal. We can safely say, however, that the President's hopes were disappointed. The United States made no real recovery. Unemployment remained around ten million; at the census of November 1937 it was nearly twelve million. The volume of American exports remained far below pre-slump levels. The country acquired a great deal more gold, which it locked away; we can see now that it would have done better to buy and store metals and other materials needed for rearmament. Although the United States exports only ten to fifteen per cent of its output, it is such a wealthy country that the absolute amount of its foreign trade is large, and so its monetary and trade policies are very

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important to the rest of the world. By now it is surely clear that the peace and prosperity of the rest of the world are very important to the United States. Economic nationalism never pays in the end.

V

We have now given our three illustrations of this theme. We shall give no more. But a few words may be said here about Japan. Nothing can excuse her brutal aggression on China or her dastardly attack on Pearl Harbor. Yet we should realize her difficulties. Her great export was raw silk, going mainly to the United States. With the slump, this market collapsed. Japan turned more to a variety of other exports, including cotton and rayon goods. New barriers were raised, in the British Empire and elsewhere, against these. She had been forced, in the nineteenth century, to give up her isolation; she had copied successfully the industrial methods of the West; she had a large and growing population; now, with the depression, the West was denying her outlets for her goods and profitable employment for her people. No wonder she felt bitter and desperate!

We may conclude with a reminder that in the latter half of the thirties efforts were made to restore some stability and cooperation in the economic world. Some countries, notably the United States, were realizing that economic nationalism was bad for all. In October 1936, after the first devaluation of the franc, the United States and Great Britain and France made a tripartite agreement to keep the rates of exchange among their currencies fairly stable. The United States made a number of trade agreements, reducing its tariff. The most important of these was that of November 1938 with Great Britain. This was also an important move away from the Ottawa system, for it involved a reduction, to which the Dominions and India agreed, on certain British preferences to the Empire. But all this came too late. Hitler was bent on aggression. The hour for international economic coöperation had passed. The thirties ended in the smoke of war.

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THE AUTOMOBILE UNIONS AND NEGRO LABOR

AS in World War I, the expansion of industry in the current conflict has focused attention upon the present and future rôle of Negro labor in the industrial economy. In contrast with the earlier period, however, collective bargaining is now well established, with the sanction of federal law, throughout the major sections of industry. Thus the question of the Negro's position in industry now and after the war involves not only relations between white and Negro workers and the employment policy of management, but also the racial policy of trade unions. It further concerns the democratic operation of labor organizations at the national and local levels in the implementation of their professed racial policies. The present paper discusses the problems arising from Negro participation in the automobile unions and seeks to throw light on the difficulties experienced by even the more progressive unions in attempting to practice equalitarian policies with respect to race.[1] In addition, it raises questions concerning the effect of trade-union organization upon the future of Negro workers in an industry in which they became established as a traditional part of the labor force during the open-shop period.

There were 23,015 Negroes in the automobile industry in 1940. Constituting approximately 4 per cent of the total labor force, these workers were unevenly distributed geographically and by plants. Nearly half of them were employed at the Ford Rouge plant in Dearborn (a Detroit suburb). In fact, probably 70 per cent of all Negroes in the industry were found in the Detroit metropolitan area alone. In 1940 Michigan accounted for 83 per cent of the Negro, as compared

[1] In addition to being a member of the Department of Economics at Howard University, the author is serving with the National War Labor Board. The views he expresses are his personal opinions.

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with 60 per cent of the white, automobile workers.[2] Throughout the industry Negro automobile workers have been largely confined to the most undesirable jobs: foundry work, spraying, sanding and general unskilled labor. The range of employment at the Ford Rouge plant, however, has been an exception. There, while disproportionately concentrated in the poorer jobs, Negro workers have been employed in all capacities—even in tool and die work.

While some changes have taken place since conversion to war production, on the whole they have not been of sufficient magnitude to alter the Negro's position in the industry. Since the beginning of conversion the employment of both whites and Negroes has substantially increased. Moreover, the tight labor market prevailing in all automobile manufacturing centers has caused the employment of Negroes, relative to whites, to increase slightly since the latter part of 1942; and the Negro's occupational distribution has been somewhat improved as a result of upgrading and the opening of training facilities formerly denied him. But the great majority of Negro workers are still found in the least desirable positions.[3]

Trade unionism as a movement in the automobile industry dates from 1936 though earlier attempts to organize the plants occurred as far back as 1912.[4] When the United Automobile Workers of America-CIO (UAW-CIO) launched a wave of sitdown strikes in the fall of 1936, Negro workers were immediately confronted with the question of whether to support or oppose collective action; and since that time they have contributed to the automobile unions one of their thorniest organizational problems. Of the four unions now in the industry,[5] only

[2] *Sixteenth Census of the United States*, Part III, "The Labor Force".

[3] For a more comprehensive discussion of the Negro's position in the industry see the writer's article, "The Negro Automobile Worker", *Journal of Political Economy*, vol. LI, No. 5 (October 1943).

[4] National Recovery Administration, Research and Planning Division, *Evidence Study* No. I, "The Automobile Manufacturing Industry", by Frank Evans, Jr. (Washington, 1935), p. 27.

[5] These organizations are: United Automobile, Aircraft and Agricultural Implement Workers of America-CIO; United Automobile Workers of America-AFL; Mechanics Educational Society of America; and United Foremen and Supervisors, Local Industrial Union No. 918.

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the UAW-CIO and United Automobile Workers of America-AFL (UAW-AFL) are known to have Negro members. As the problems of Negro workers are similar in both unions, the following discussion will deal, in the main, with the dominant organization, the UAW-CIO.

Union Policies and the Negro Worker

Both the UAW-CIO and the UAW-AFL have followed a consistent official policy of extending full membership privileges to all workers regardless of race, color, creed or national origin. With few exceptions, national[6] officers of the two unions have attempted to observe this policy in practice. The UAW-CIO, in particular, has carried on a campaign through its educational and publicity departments for the dual purpose of convincing Negro workers of its equalitarian principles and instilling in its white membership acceptance of its nondiscrimination policy. It may also be said that when cases of flagrant discrimination within the union have come to the fore, the national leadership has quite consistently refused to compromise with race prejudice.

But the individual Negro worker is much more intimately concerned with the policies and practices of the union locals, and, unfortunately, the degree to which the national policy is implemented at this level varies widely. Save in a few locals in the South, Negroes are freely admitted to membership. But in many locals there is real opposition to other aspects of Negro union participation. In a few, Negroes are not particularly welcome even at union meetings, while their attendance at union social affairs has been opposed in many cases. In most locals there is opposition to racial equality in upgrading. The pattern of union race relations varies considerably even among locals in the same community. But wherever Negro automobile workers are found, the race issue has been a constant threat to harmonious union relations.

Generally speaking, Negro automobile workers have been slow to accept unionism. The causes are not difficult to determine. Largely because of their unfortunate experiences with

[6] The term "national" is used in this paper to denote the international offices of the unions.

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some unions,[7] Negro workers generally have been traditionally skeptical of organized labor, and Negroes in the automobile industry were no exception. Moreover, the effect of this historic suspicion was reinforced by their background of experiences. Beginning with World War I, most of them had migrated from the rural South. Possessing little experience with trade unions, they were easily influenced by those who counseled abstention from unionism. In fact, the bulk of the Negro middle class in the automobile centers to whom the wage-earning group looked for leadership was decidedly anti-union in sentiment. Again, an awareness of the racial attitude of many of their white fellow workers made Negroes reluctant to join in a common cause with them. Finally, the general community pattern of race relations has made it difficult for the union to practice racial equality in most localities and thus has restricted correspondingly the ability of Negroes to take advantage of full participation. Yet in spite of setbacks and a background of mutual racial hostility and suspicion between the two groups of workers, Negro union activity has registered a marked improvement since the early organizing period.

Early Industrial Unrest

There were few Negroes at the scene of conflict during the wave of sitdown strikes between November 1936 and April 1937.[8] During the Studebaker sitdown at South Bend in November 1936, the Oldsmobile dispute in Lansing in January 1937, the sitdown in Flint General Motors plants in February 1937, and the numerous Detroit disputes (chief of which was the Chrysler sitdown), most Negroes left the plants as soon as possible and remained away until settlements were reached. At the time of the Oldsmobile strike, for example, it was even

[7] See Herbert R. Northrup, "Organized Labor and Negro Workers", *Journal of Political Economy*, vol. LI, No. 3 (June 1943); No. 6 (December 1943), p. 550 (*Errata*).

[8] For a detailed account of the automobile sitdown strikes see: Edward Levinson, *Labor on the March* (New York and London, 1938), chaps. vii, viii; Mary H. Vorse, *Labor's New Millions* (New York, 1938), chaps. v-ix; Herbert Harris, *American Labor* (New Haven and London, 1939), pp. 288-304; J. Raymond Walsh, *C.I.O.* (New York, 1937), chap. iv. Little reference is made to the activity of Negro workers in these strikes, however.

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reported that an offer by union representatives to pay union initiation fees for Negro workers met with little response.[9]

Throughout the automobile manufacturing centers Negro skepticism of the union's aims was clearly evident. It appeared that most Negro workers considered the strikes as a "white man's battle". One observer covering the Flint sitdowns reported that Negro workers were "asking themselves the usual question, 'Will the union give us a square deal and a chance at some of the better jobs?' ".[10] Some pro-union sentiment existed among Negroes in the Detroit area where a Negro shop steward at the Chrysler Kercheval Avenue plant was prominent among the strike leaders. Yet by and large the attitude of Negro workers was one of skepticism and aloofness.

Negroes were prominent among the Ford management's adherents who met and severely mauled UAW-CIO officials during the so-called "Battle of the Overpass" at the Ford Rouge plant in May 1937. But in contrast to the policy of management in the previous automobile strikes, Ford Rouge officials recruited workers for the express purpose of quelling any unrest due to the union's organizational drive.[11] A considerable number of Negroes were used for this purpose and they proved to be staunch supporters of the company's policy.[12] Nevertheless, since the majority of the anti-union employees at Ford's were white, the attack on the unionists was distinctly not a racial affair.

The difference between the anti-union activity of Negroes at Ford's and the passive rôle they played in the sitdown strikes was due not only to the more aggressive attitude of management but also to the Negro worker's fear that his relatively superior status at the Rouge plant would be threatened by organization. Negroes employed in other automobile plants did

[9] *Afro-American*, January 30, 1937. [10] *Ibid.*, February 27, 1937.

[11] See *Decisions and Orders of the National Labor Relations Board*, vol. IV, November 1, 1937 to February 1, 1938, Case No. C-199, Ford Motor Company *vs.* International Union, United Automobile Workers of America (Washington, 1938). The cease and desist order issued by the NLRB was subsequently upheld indirectly by the U. S. Supreme Court which refused to review the findings of the lower court.

[12] *Afro-American*, June 5, 1937. See also *Detroit News*, May 27, 1937.

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not wish to suffer a deterioration in their already inferior status, yet apparently they did not consider this status sufficiently desirable to warrant aggressive coöperation with management.[13]

The back-to-work movement staged during the closing days of the Chrysler strike in November 1939 also clearly demonstrated the lack of trade-union sympathy among Negro workers. But it likewise portrayed the growing division of opinion among Negro workers and leaders on the question of trade-union affiliation. The closing of the main Dodge plant on October 6, because of an alleged union-sponsored slowdown, brought about the suspension of operations in all Chrysler Corporation plants. The controversy dragged on until late in November. On November 22 a number of Negro foundry employees who had returned to the main Dodge plant for their paychecks were allegedly advised by one of the plant supervisors that they would be given work if they returned within ten days.[14] Accordingly, about sixty Negroes attempted to pass the picket lines on November 24 only to be met by a barrage of stones. In the ensuing melee two policemen and six workers were injured. While most of the Negroes succeeded in entering the foundry, they were sent home after working a few hours.

The union immediately called a strike and accused the company of attempting to precipitate a race riot. The company promptly denied the charge. Only a few Negroes were in the picket lines but these men severely censured the back-to-work movement. Meanwhile, Negro leaders in the community realized that such a development held the germs of race conflict and feared that Negro workers might become branded as scab labor. Consequently, they circulated in the Negro sections of Detroit a statement condemning a return by Negro employees until the controversy was settled.

But in spite of this action a second back-to-work movement took place on November 27, when 187 men, all but six of them

[13] The sitdown technique itself made it extremely difficult for pro-company employees to offer resistance to the organized workers.

[14] Interviews with Negro workers in this group, Detroit, March 4, 1940.

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Negroes, under police protection crossed a picket line of several thousand workers. They again worked a few hours before dismissal. This time there was no violence, principally because union leaders strongly advised the pickets against molesting the strikebreakers.[15] More significant, however, was the fact that several Negro leaders addressed both strikers and strikebreakers from union sound trucks, entreated the former to abstain from violence and urged the latter not to cross the picket line.

Negro strikebreakers interviewed by the writer advanced two reasons for their action. The first was the lack of money, a factor which did not significantly distinguish them from many of the white (as well as probably most of the Negro) strikers. The second concerned their hope of occupational advancement. They had been confined to the poorest jobs, they explained, and, though they considered the company primarily responsible for this discrimination, they felt that the union had not materially improved their position. They said they had been promised better jobs by the company and felt the wisest policy to pursue was one of playing management against the union.[16]

The industry's second and most spectacular instance of using Negroes as strikebreakers occurred during the Ford Rouge dispute in April 1941. It has already been noted that Negroes have traditionally shown greater loyalty to Ford than to any other automobile manufacturer. This has been due not only to Ford's large Negro employment, and the superior occupational distribution of Negro workers at the Rouge plant, but also to the numerous signs of personal recognition which Henry Ford has accorded Negroes. In addition to these factors, Rouge officials again took steps to forestall organization of the plant and in this endeavor Negroes were given a key rôle.

Several months before the strike broke out it was already evident to informed observers in Detroit that a final showdown was inevitable. Whether by coincidence or otherwise, the Rouge plant management began hiring an unusually large number of Negroes early in 1941. Between February and April of that year several thousand Negroes were hired in the apparent attempt to strengthen the anti-union forces in the

[15] See *New York Times*, November 28, 1939.

[16] Interviews, Negro strikebreakers, Detroit, March 4, 1940.

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plant.[17] When the strike broke out on the night of April 1 a number of Negro workers remained inside the plant, chiefly in the foundry. The following day, moreover, they were joined by several hundred Negro day-shift employees who remained in the plant until the strike settlement. They did so in spite of union pleas that they leave and, of even greater significance, in the face of entreaties of numerous Negro leaders, including national officers of the National Association for the Advancement of Colored People[18] and the National Negro Congress.

In fact, the strikebreakers were widely condemned by virtually all elements in the Detroit Negro community, while among the pickets were found many Negro workers supporting the union. Only a portion of the strikebreakers were employees of long standing, a substantial number having been hired during the two previous months. Probably all of them based their actions, at least partly, on personal loyalty to Henry Ford. Equally important considerations, however, were the continued fear that organization of the plant would cause many Negroes to lose jobs which were denied to them in other plants and the fact that the strikebreakers were allegedly paid the regular hourly rate for time spent in the plant during the strike.[19]

The vast majority of Negro Rouge employees neither cooperated with the union nor supported the company, however, and it appears fair to say that most of them anticipated a union victory with misgivings because of the realization that the better jobs which many of them held had been due largely to the good graces of management and had been effectuated in the face of the opposition on racial grounds of a portion of the white labor force. Their fear that organization of the plant would spell the end of their relatively superior status was apparently encouraged by those who for other reasons did not wish to see the company capitulate to the union. Such apprehension was

[17] Interviews, Negro Ford employees, Detroit, April 1941.

[18] See *Pittsburgh Courier*, April 26, 1941.

[19] The non-strikers were originally promised regular pay on a twenty-four hour basis though this was soon restricted to the regular eight-hour shift. Several of these men interviewed by the writer received well over $100 for their efforts and one was paid $190. Interviews, Detroit, April 1941.

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also supported by the realization that, though the union had not initiated racial employment barriers in other establishments, it had made little progress in eliminating them.

This brief survey of industrial strife in the industry serves to demonstrate the seemingly divergent interest of Negro and white automobile workers, the chief manifestation of which was the inferior occupational status of the Negro in some plants and complete debarment from employment in others. It was with such factors that the union was compelled to contend in organizing workers of both races on a basis of complete equality. As the organization of the industry has progressed, Negro and white workers have become increasingly disposed to present a common front in labor-management crises. Thus workers of the two races demonstrated exemplary coöperation during the 1939 General Motors tool and die strike (General Motors had been organized for over two years by this time) and on no subsequent occasion prior to the conversion period did Negroes as a group oppose white unionists on the strike question.

Union Participation

Prior to 1941 union membership was less prevalent among Negro than among white employees. Thus a UAW-CIO survey conducted in February 1940, which covered locals accounting for approximately 66 per cent of the union's membership, revealed that only 55.3 per cent of the Negroes as compared with 76.6 per cent of the white wage-earners employed in organized plants held union membership.[20] Expressed in another way, Negro employees were only 72 per cent as highly organized as the white workers. As the Ford union-shop agreement of June 1941 extended union membership to nearly 50 per cent of the Negro workers then in the industry, however, the two races became equally well organized. Developments within the past three years appear not to have altered this picture. On the other hand, Negro union membership in the UAW-AFL is still comparatively small.

The extent of Negro membership in particular locals has depended upon a variety of factors. Union shop and maintenance of membership provisions, of course, tend to fix member-

[20] UAW-CIO research department survey made at the request of the writer.

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ship at particular levels or at least to set a minimum size to the membership rolls. In the absence of such provisions, however, the relative size of Negro membership is affected by the maturity of union-management relations, the attitude of the union local leadership, the customs and traditions of the community, the composition of the white labor force, the relative size of the Negro labor force, and the attitude of management. Where Southern whites comprise a predominant segment of the labor force, Negro membership is usually small. On the other hand, in those establishments (chiefly foundries) consisting of a mixed foreign-born element, Negro membership is ordinarily large. A biased local leadership constitutes a serious deterrent to the organization of Negroes whereas a sympathetic leadership has the opposite effect. Where management has followed a liberal policy with regard to Negro employment, Negro membership and general union participation are also usually good once the plant has become organized. In southern and border state communities, where few Negro automobile workers are found, neither the general public nor the white labor force has looked upon bi-racial union activity with favor. When the Atlanta General Motors UAW-CIO local was formed, for example, the white workers refused to admit Negroes as members and some even advocated that they be fired.[21] As late as 1941 these Negro workers were outside the union, and, when queried as to why they had not been admitted to membership, the local leadership replied that the white members "would not stand for" a mixed local.[22]

Union membership among Negroes is most extensive in those plants, such as the smaller foundries, where they comprise a substantial part of the labor force. There are two reasons for this. First, the union usually makes a greater bid for Negro support, for without it organization of the plant would be virtually impossible. Second, Negro employees ordinarily feel greater security by virtue of their numbers. They know that the employer could not very easily displace them for union activity. Furthermore, they are not so likely

[21] Interview secured by Herbert Northrup with former president of Atlanta General Motors Local (UAW-CIO), New Orleans, June 12, 1940.

[22] Correspondence, Atlanta Urban League executive secretary, July 15, 1941.

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to consider the local "just another white man's union". This explains why Negro membership and general union participation have been higher in such locals as Bohn Local 208 [23] (Detroit) and in Lambkin Foundry Local 429 (New Haven, Michigan) than in most union locals.

The degree to which the union has been able to abolish barriers to Negro occupational advancement has had a significant effect upon Negro membership. Nowhere in the industry has this been fully accomplished, but those locals that have made significant progress in this direction have experienced greater Negro support. Were the union able to provide equal opportunity in upgrading, a near-perfect record in Negro membership probably would be assured, for this issue has constituted the Negro's most important single grievance.

Negro representation among elective and appointive union officials has been small in relation to the volume of both Negro employment and union membership. In most years, there have been no more than five regular Negro organizers in the UAW-CIO (a substantial number of temporary Negro organizers are used during particular organizing campaigns) while a few part-time Negro organizers have been utilized. All of these are responsible to the national office. In addition, there are ordinarily several Negro international representatives. No Negroes in the UAW-CIO national office hold higher positions than those just mentioned.[23a] The UAW-AFL, however, has a Negro on its international executive board.

For several years Negro unionists in the UAW-CIO have campaigned for representation on the international executive board. When the question was first raised at the 1939 special convention in Cleveland, President R. J. Thomas spoke in opposition to the proposal, saying, "I don't believe that the majority of the Negro people themselves want a Jim Crow car attached to the International Union." The request was denied by the convention.[24] In 1941 a determined effort was made

[23] A Negro, Hodges Mason, was elected president of this local in February 1944.

[23a] A Negro has been appointed to the union's war policy committee since this article was written.

[24] UAW-CIO, *Proceedings*, 1939, Special Convention, Cleveland, pp. 569-71.

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to secure the election of Walter Hardin, one of the most prominent Negro unionists, to the executive board, but the attempt failed at the annual convention in August of that year. A similar attempt in 1942 was unsuccessful. The 1943 convention, held in Buffalo, witnessed the most strenuous effort made to date, debate on the issue arousing considerable animosity among the delegates. Because this last attempt was intimately connected with some recent developments in the status of Negroes in the union, it is referred to again in a later section.

Negro unionists have been more successful in securing official positions in the union locals, though here again the number of such officeholders has been disproportionately low. As would be expected, Negroes have been most successful in those locals where they comprise a substantial portion of the union membership. Several locals have had Negro presidents at one time or another. Probably best known is William Sneed who has served for three successive terms as president of Local 453 (Cicero, Illinois). Most of these locals are small and Negro workers usually comprise at least 25 per cent of the labor force. A considerable number of Negroes have held such positions as vice-president, treasurer, recording secretary, executive board member and trustee. Negroes are always well represented among the delegates to the annual conventions of both unions. For example, approximately 150 Negro delegates were present at the 1943 UAW-CIO convention.

Negroes have also held numerous positions in the plant collective bargaining machinery. Negro stewards are naturally common in foundries and other departments where Negro representation is high. In several instances Negro unionists have also been elected as stewards and plant committeemen, as representatives of a predominantly white labor force. This has been particularly true at the Ford Rouge plant. In that establishment Negroes have been members of the plant committee of the pressed steel, spring and upset, and open-hearth buildings —in none of which they comprise more than 15 per cent of total employment—as well as in the foundry and foundry machine shop where they are found in large numbers. As a matter of fact, in no instance that has come to the attention of the writer have Negroes been elected to union positions, ex-

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cept as plant stewards, exclusively by means of Negro support.

It is nevertheless true that Negro unionists must be particularly outstanding to obtain election, for the racial factor constitutes an important obstacle. A Negro can seldom secure election to an official position within a local solely by means of Negro support, since, even in those plants with a large Negro representation, Negro union membership and, more especially, Negro participation in union elections are too small to make such a result possible. Coupled with this situation is the fact that when Negro candidates are running, voting frequently tends to follow racial lines. In the fall of 1941, for example, Ford Local 600 found it necessary officially to condemn the use of racial designation as a smear tactic in elections.[25]

Negro unionists, as distinct from Negro automobile workers generally, compare unfavorably with white union members in most phases of union participation—matters such as meeting attendance, payment of dues, union politics and social activities. But in evaluating such a comparison one should consider the initial handicaps faced by Negro workers and the improvement registered during recent years. Attention can be given here to only a few of the various phases of union life.

Negro attendance at meetings of the union locals depends in large measure upon the several factors already outlined as determining the extent of Negro membership. Originally skeptical toward the union's sincerity in seeking their support, more than a few Negroes accepted membership primarily in order to avoid difficulty with organized workers. It is easy to understand that in such cases considerable time has been required to allay old suspicions. Moreover, racial discrimination in privately owned establishments has discouraged Negro attendance in those locals which at one time or another used lodge halls where eating facilities were made available to white but were denied to Negro members.[26] While having little direct influence upon the extent of Negro union activity, racial dis-

[25] *United Automobile Worker*, "Ford Facts" edition, October 10, 1941.

[26] Such situations existed for several years at Packard Local 190 and Chevrolet Local 235 in Detroit and Local 668 in Saginaw. The Packard and Saginaw situations have been corrected.

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crimination in hotels engaged for union conventions has also proved a thorny problem. The refusal of the St. Louis hotel management to house or feed Negro delegates to the 1940 convention produced considerable dissatisfaction with the convention arrangements committee,[27] while the 1943 convention, originally scheduled for St. Louis again, was transferred to Buffalo as a result of the continued refusal of St. Louis hotels to accommodate Negro delegates.[28] Such difficulties have also arisen at state and local conventions. In nearly all such cases union officials have adopted an uncompromising stand for racial tolerance.

The race issue has been much more acute in the union's social activities, and as a result Negro participation has been less extensive than in any other phase of union life. Many white unionists have opposed Negro participation in dances, picnics, athletic contests and women's auxiliaries. During the early years several locals were forced to cancel scheduled social affairs for this reason, while other mixed locals have never held such activities, especially dances, because of the almost certain protest that would arise. Some locals with a small Negro membership, however, regularly hold dances with the tacit understanding that Negroes will not attend. On the other hand, numerous locals initially experiencing difficulties of this type now regularly hold such affairs with no friction whatsoever. A great deal depends upon the composition of the white membership and the attitude of the local leadership. The latter can do much to allay animosity, though there is a limit beyond which it cannot go.

Negro representation in the women's auxiliaries has been small. Well-established auxiliaries are confined primarily to the older and larger locals thus far, principally because unionists' wives have been less union-conscious than their husbands. An equally important reason in mixed locals, however, is the inclusion of white and Negro women in the same organization. Race prejudice seems more prevalent among the women, per-

[27] UAW-CIO, *Proceedings*, 1940, pp. 184-85, 313, 571-73, 601. A resolution was passed prohibiting the selection of any city for the following convention where adequate facilities were not available for all delegates.

[28] See *United Automobile Worker*, August 15, 1943.

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haps because women of the two races have not had the long experience of working together in the plant as have many of the men. Moreover, the auxiliaries are more definitely social in character than the locals. For their part, Negro women realize that in many cases they are not wanted. Thus they are really active in only a few auxiliaries. In several locals the leadership has deemed it inadvisable to create an auxiliary lest the ill feeling thus engendered endanger relations with the local itself. Nevertheless, the participation of Negro women has been gradually increasing.

The foregoing presentation has focused attention upon the problems which the presence of white and Negro wage-earners in the same union has entailed. The problems, it should be noted, were not created by the union, for the social distance separating workers of the two races existed long before collective bargaining became a part of the industry. One of the most outstanding features of the Negro's union status during the period from 1936 through 1941, however, was the steadily improving interracial coöperation in the shop and more particularly in union activities. That this was due primarily to the trade-union movement there appeared little doubt. But serious problems remained, especially the seniority issue. In a sense, the improvement was superficial, since it took place within the general framework of the Negro's inferior occupational status, and subsequent minor changes in that status have threatened to undermine the progress already made.

The Seniority Problem

The Negro automobile worker's chief complaint with collective bargaining relates to the operation of certain phases of seniority.[29] Since no serious decline in production has occurred since 1938, the first year of widespread organization, promotion has been the object of most dissatisfaction. But with the post-war contraction in employment imminent, layoff procedures will undoubtedly come in for equal censure.

Six different seniority units—occupation, occupational group,

[29] The term "seniority" is employed here in the broad sense in which it is used in the industry; namely, preference in accordance with length of service as applied to layoff, recall, promotion and transfer.

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department, division, plant and company [30]—are found in the industry. A given plant usually employs a combination of two or more of these units. Layoff and recall are usually conducted on a straight seniority basis. Thus under occupational seniority, the worker with the shortest length of service in the occupation is the first to be laid off. Under departmental seniority, the employee with the least seniority in the department is laid off first regardless of the occupation in which employment is originally reduced. This implies that there is complete interchangeability of jobs, for a worker whose job is closed down has a right to displace (bump) any worker with less seniority in his department, though frequently the agreement specifies that a worker may bump a junior employee only if he can perform the latter's job satisfactorily.

Negro workers are assured equitable treatment during layoffs under occupational seniority. Under departmental seniority, too, they are treated impartially on the whole. But there are certain qualifications. Since Negroes are generally found in the lowest jobs (in terms of skill) in a given department, they are less secure than white employees as a group since bumping usually occurs from higher to lower jobs. In mixed departments one sometimes finds Negro workers possessing the ability to perform jobs reserved for whites only. When layoffs are in order, however, these Negroes are prevented from bumping to such jobs, regardless of their seniority, by interpreting "ability" as acceptability.

The racial disparity in protection against layoff is more pronounced under occupational group, division, plant and company seniority. An occupational group consists of a number of related occupations within which seniority rights may be exercised. In the laying-off process senior employees may bump junior workers in designated lower occupations but may not displace employees in other occupations at the same level of skill. Since there may be three, four, or more levels of skill in a given occupational group, the displacement of one worker at the top level may compel the bumping of several men, the

[30] Company-wide seniority is relatively rare except where "company" and "plant" are identical terms.

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first worker bumping a junior employee in a lower occupation who in turn bumps an employee junior to him who may next bump a worker on an even lower level. Workers in the lowest occupations obviously are in the most precarious position. While subject to displacement by senior employees in any other occupation in the group, they can displace junior employees only within their own occupation. If this alternative is absent they are automatically unemployed. Yet it is precisely the lowest jobs to which Negroes are largely confined. The same analysis could be applied to division, plant-wide or company seniority on layoff in which the lowest jobs are even more precarious. In fact, given the traditionally inferior Negro occupational status, it may be stated as a general proposition that the larger the seniority unit, the greater is the incidence of unemployment among Negro workers when layoffs occur.

When large-scale layoffs are put into effect in plants employing the larger seniority units, it is highly possible that Negroes in some sections of the establishment may be entirely displaced. No instances in which this has actually occurred have come to the writer's attention but there are several plants in which such would have been the case had not special arrangements been made. In one of the Detroit Briggs plants, for example, Negro stock handlers would have been completely displaced had not the union and management agreed to waive adherence to the regular layoff procedure.[31] Again, at the main Chevrolet plant in Flint special provisions have been made for Negro workers for the same reason.[32] In brief, the job tenure of Negro workers is less secure on layoffs (1) because occupational color lines are still observed to some extent in the bumping process (the range of other possibilities thus being narrower) and (2) because Negroes are concentrated in occupations which are the least secure.

Negro workers frequently receive differential treatment on transfers. Many agreements specify that plant seniority shall

[31] Interviews with Briggs Manufacturing Co. personnel director and officials of Local 212 (UAW-CIO), Detroit, February 12 and March 5, 1940.

[32] Interview, president of Local 659 (UAW-CIO), Flint, July 12, 1941.

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apply when a job has been discontinued. In practice, a worker is transferred to work similar to his former job or at least to work that he can quickly master. But even with these qualifications, Negroes so affected rarely possess plant seniority, simply because strict application would ofttimes result in the "dilution" of all-white departments. As a rule, Negro workers are transferred only to other sections containing "Negro jobs".

The Negro's greatest dissatisfaction with the operation of seniority, it has been noted, concerns promotion. Virtually all agreements specify that ability as well as seniority shall determine the selection of workers for advancement. Some contracts place the major emphasis upon ability, but state that where ability is equal the selection will rest upon seniority. Others provide that seniority will be the determining factor as long as ability is sufficient. Theoretically, promotions take place only within the seniority unit. But the employer can naturally advance workers outside the unit, and the union urges management to do so rather than to hire new workers for the better jobs.

Promotions for Negro workers have been far more restricted than for white workers. Within the particular seniority unit Negroes have rarely been upgraded save where there are higher jobs in which Negro workers are customarily employed, since here also "ability" has been interpreted as acceptability to management and white workers in the higher occupation or department. It has been exceptional for Negroes to be promoted outside the seniority unit; and here again the great majority of these instances occur where the higher positions are "Negro jobs". In general, the smaller the seniority unit the more restricted has been the Negro's opportunity for promotion.

Dissatisfaction with the application of regulations concerning the movement of workers from one job to another is settled through the regular grievance procedure, but it readily can be seen that if local union officials are not themselves sympathetic with the protest of Negro plaintiffs the latter have little redress. In numerous instances local officials would willingly oppose cases of flagrant discrimination, but privately confess that they

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fear to do so in view of the widespread opposition evinced by a substantial section of the white membership.[33]

In discussing the seniority question with Negroes in the industry one finds a rather widespread distaste for the narrower seniority units such as occupation or department. Probably most Negroes prefer plant seniority because of the theoretically greater opportunities for promotion. This attitude probably will change when war production is curtailed and employment declines. Dislike for departmental seniority stems in part from the fact that in some plants seniority by department prevails for promotion, but plant seniority for layoff. This combination is obviously undesirable from the viewpoint of the typical Negro employee, since most Negroes are unduly affected by reductions in employment and are considerably restricted in upgrading. Yet it seems quite probable that even in the absence of discriminatory administration no seniority system will guarantee equitable treatment to the great bulk of Negroes in industry as long as they are concentrated in the less desirable occupations.

The War Period

The industry's conversion to war production which began in the last half of 1941 threatened to worsen the Negro's already inferior position, while the influx of thousands of additional workers, chiefly from the South, weakened the union's grip on its membership and strengthened opposition to fuller Negro participation in the union and in the industry. Due to the initial decreased importance of the jobs in which they were most heavily represented, Negro employees found fewer openings in their traditional occupations, while management made little effort to retrain and upgrade them. Faced with this fact, the UAW-CIO executive board in September 1941 directed

[33] The following statement elicited from an official of a union local is typical: "There is a very strong feeling among white workers whenever the promotion issue comes up. I've heard them talk about it and I know. White workers have told me, 'I'll be goddamned if I'll work with a goddamned nigger.' Even union officials who would like to see Negroes get the promotions they deserve are afraid to handle the issue. . . . Most officials want to organize the Negro because he is a potential scab . . . but many officials who sincerely think the Negro should get an even break are afraid to take a stand on promotions. The union isn't strong enough yet." Interview, Detroit, Feb. 24, 1940.

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both the national office and the union locals to establish committees to investigate racial discrimination in employment.

Following a lively discussion of the Negro employment problem at the 1942 annual convention a resolution was adopted which, among other things, (1) reaffirmed the union's policy of nondiscrimination with respect to race; (2) directed union officers to obtain the employment of Negroes, both male and female, in plants where none were employed; and (3) provided for the continuance of committees on employment discrimination in the national executive board and the local unions.[34]

As in previous years leaders, as well as the rank and file, in some locals have opposed equal opportunity for Negro workers, when faced with specific issues. While white unionists seldom dare to voice this opposition at large union meetings, particularly when Negroes are present, they have exerted pressure upon the national leaders to relax their insistence upon equality in job opportunities. During the 1942 convention, for example, President Thomas pointed to the glaring contradiction between the numerous resolutions condemning discrimination and continued opposition in the locals to Negro job equality. Revealing that he had received numerous letters threatening opposition to his reëlection because of his stand on the question, he continued: "Rather than receiving these letters from local unions castigating myself on this particular issue, for God's sake don't be a hypocrite.... If there are delegates in this convention who do not agree with this position, have guts enough to stand on this convention floor and say so." [35] Yet without a word of protest another anti-discrimination resolution was adopted.[36]

[34] UAW-CIO, *Proceedings*, 1942, pp. 182-87, 281-87.

[35] *Ibid.*, p. 184.

[36] A competent student of American race relations has noted: "There is an observation which we shall find substantiated in every aspect of the Negro problem, that the ordinary white American is the more prejudiced, the more individual and personal the matter is. When he becomes formal and, particularly, when he acts as a citizen, he is very much more under the control of the equalitarian national Creed than when he is just an individual worker, neighbor or customer." Gunnar Myrdal, *et al.*, *An American Dilemma: The Negro Problem and Modern Democracy* (New York, 1944), vol. I, p. 384.

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Negro unionists have manifested considerable bitterness over this contradiction. Speaking on a similar resolution before the 1941 convention, a Negro delegate declared:

> If my memory serves me right, at the Cleveland convention such a resolution was passed. At the St. Louis convention a similar resolution was passed affecting the status of the Negro throughout the entire industry of America. Nothing has been done about those resolutions. In reality they have been dumped in the waste-paper baskets. I say it is a waste of time to come to convention after convention and pass resolutions and then have nobody do anything about them after we leave the convention. We had just as well not pass the resolution. Words without men behind the words mean nothing, in my estimation.[37]

Meanwhile, within many locals the Negro question became an issue second in importance only to the general problem of transfer to war production. The race issue became particularly acute because the agreement of September 17, 1941, concluded by the Office of Production Management between automobile manufacturers and the unions, provided for industry-wide seniority, on transfer, and gave workers already in the industry priority over new war production jobs. If this agreement, which was slightly amended on June 2, 1942, had been adequately enforced, it would have forced the transfer of large numbers of Negroes to jobs outside their traditional sphere of employment; and if the insistence of Negro welfare organizations and federal agencies upon abolition of racial discrimination policies had been effective, it would have been necessary to recruit more Negro workers, including females previously employed only in small numbers and almost exclusively in menial capacities.

The attitude of many white workers toward the employment of Negroes in better jobs was not long in showing itself. Early in November 1941, employees at the Packard plant in Detroit struck when two Negro metal polishers were transferred to war production and resumed work only after the Negroes were withdrawn. It was charged in some quarters that the failure of the local leadership to uphold vigorously equality in job op-

[37] UAW-CIO, *Proceedings*, 1941, p. 212. For the expression of similar sentiments, see also *Proceedings*, 1943, Fifth Day, p. 33.

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portunities stemmed from fear of retaliation by the white membership at the impending local election. On the other hand, some Negro groups contended that Ku Klux Klan members within the union were instrumental in promoting racial hatred.[38] Six months later (the local leadership had been re-elected in the meanwhile) the Negro metal polishers were finally transferred.

Early in February 1942, three sitdown strikes occurred at the Chrysler Highland Park plant when a number of Negro boxers and loaders in the Dodge main plant were transferred to war work at the Highland Park establishment. In this case Richard Frankensteen, UAW-CIO vice-president and director of the union's Chrysler division, gave the strikers the choice of returning to their jobs or being discharged. They returned the following day. On June 2, 1942, the entire Dodge truck plant was closed when a large group of the labor force struck over the transfer of Negroes from another Chrysler plant. The national office again found it necessary to step in. Morris Field, assistant director of the union's Chrysler division, ordered the strikers back to work, stating that the "union's policy calls for equal treatment of Negroes and so does the American Constitution." [39] This strike also was short-lived.

One of the most highly publicized racial strikes erupted in June at the Hudson naval ordnance plant,[40] a government-owned but privately operated establishment. Before the war, Negroes in the Hudson automobile plant had been employed almost entirely as janitors and the union local had made no noticeable effort to encourage the upgrading of Negroes. But early in 1942 the local went on record as favoring an improvement in the Negro's occupational position. Nevertheless, when eight Negroes were placed on machine operations on June 18, the white labor force immediately struck. The Navy

[38] *Michigan Chronicle,* December 13, 1941. During the Packard strike in June 1943, R. J. Thomas himself made an identical charge. *New York Times,* June 5, 1943; *Detroit News,* June 9, 1943.

[39] *New York Times,* June 3, 1942.

[40] In October 1943, the Navy transferred the management of this establishment from the Hudson Motor Car Co. to the Westinghouse Electric and Manufacturing Co.

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Department ordered immediate resumption of work and threatened to blacklist the strikers in all war plants. R. J. Thomas denounced the strike as a "flagrant violation" of the union constitution and threatened union expulsion.[41] A Navy investigation resulted in the discharge, with union approval, of four of the strike's ringleaders.

Two strikes over Negro upgrading broke out at the Timken-Detroit plant in July 1942. When a Negro helper was upgraded to the job of hammerman, white workers in the department immediately struck. (There has been a traditional color line throughout the drop forge industry. Negroes have worked as hammerman helpers but rarely as hammermen.) The Negro was temporarily withdrawn, and the strikers resumed work. After considerable wrangling at several local meetings,[42] the Negro worker was allowed to retain the hammerman job. But in spite of a resolution adopted by the local foregoing further strikes for the duration of the war, another stoppage occurred later in the same month when a second Negro was upgraded to a hammerman job. Due largely to the uncompromising stand adopted by both the local leadership and the company, however, the strikers resumed work without satisfaction of their demands. Throughout this period of unrest officials of the Timken local took an unusually firm position in the face of bitter opposition from many white unionists.

The most serious of the recent racial strikes took place at the Packard airplane motor plant early in June 1943.[43] Late in May, race feeling flared up in the plant when three Negroes were upgraded to the final motor assembly line. A strike staged by several white workers subsided when the Negroes were withdrawn pending a conference on the issue. This action was immediately followed by a strike of approximately

[41] *Washington Post*, June 19, 1942.

[42] Feeling ran high among many white workers at the first meeting. One white unionist is reported to have stated: "We intend to hold out on the color line and fight for what we want even if President Roosevelt has to come and settle the question." *Michigan Chronicle*, July 18, 1942.

[43] Between June 1943 and the date of this writing, several minor strikes on the same issue have occurred. Late in January 1944, for example, approximately 700 workers in the Chrysler Tank Arsenal struck for two days following the upgrading of a Negro employee. *Michigan Chronicle*, February 5, 1944.

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1,500 of the 2,500 Negro workers at Packard. They returned to work soon thereafter upon being urged by union, company and Army officials to await the decision of the projected conference. Following this meeting on May 30, the three Negroes were reinstated on the final assembly line. On June 3 the growing resentment of the white labor force, a large portion of which consists of Southern whites and workers of Polish descent, broke out into a strike in which at least 90 per cent of the employees coöperated.

It was evident that both the local officials, who adopted a firmer stand than they had during the previous strike, and the national officers had lost complete control over the local membership. Their entreaties to the strikers to return to work were met with jeers. Some strikers openly denounced their union officers as failing to represent the will of the majority. Though the shop stewards had voted to urge the strikers to return to work, observers on the scene noted a number of stewards exhorting the membership to remain away from the job until the strikers' demands were met.[44] Faced with the united front of the union leadership and government and company officials,[45] however, the strikers returned to work June 7 without succeeding in ousting the three Negroes who had been upgraded.

It has been said that the race riot which broke out in Detroit on June 21 was devoid of antagonism between white and black workers since no violence occurred in the plants.[46] But on the basis of information obtained from eyewitnesses it appears that some unionists of both races did participate in the frenzy that raged in various parts of the city. Yet high union officials exerted considerable effort to reduce its fury and were among the very few individuals of influence in the area who openly warned in advance that such an outbreak was coming. They publicly called for measures designed to forestall the impend-

[44] See *Detroit Free Press*, June 6, 1943.

[45] R. J. Thomas charged, however, that C. E. Weiss, Packard director of industrial relations, had contributed to the strike by advising white workers on the final motor assembly line that they did not have to work with Negroes. *Detroit Free Press*, June 4, 1943.

[46] For a detailed description of the riot, see Alfred M. Lee and Norman D. Humphrey, *Race Riot* (New York, 1943).

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ing disaster. This was in marked contrast to local government officials who privately feared the worst but who maintained a "sit-tight" policy publicly. Union periodicals and public addresses of top union officials not only condemned the riot and its implications but insisted that unless race discrimination with respect to employment, housing, recreation and civic activities was abolished, a recurrence of the outbreak could be expected. R. J. Thomas advanced a remedial program, commended by at least one metropolitan daily and by numerous church organizations, which at this writing has not been equaled by any program put into effect by the public authorities.[47] Moreover, to the union's long-range educational program goes considerable credit for the fact that no racial disturbances occurred in the plants.

Confronted with the rising opposition to Negro employment and upgrading displayed by many white unionists, Negro members became increasingly fearful that anti-Negro elements might seize control of the union. Likewise, they viewed with alarm the apparent inability of union officials to control the repeated race strikes. (During the 1943 Packard strike top officials frankly admitted their helplessness.)[48] Renewed vigor was thus injected into the old issue of Negro representation on the international executive board. During the summer and early fall of the same year leading Negro unionists discussed among themselves the desirability of securing a constitutional amendment specifically providing for a Negro executive board member as well as alternative policies on greater official recognition for Negro workers.

Among the vocal elements most of the sentiment appeared to favor a constitutional provision for Negro representation on the board. Both of the major union factions—the Addes-Frankensteen (left wing) and the Leonard-Reuther (right wing) groups—were approached for commitments on the proposal. Walter

[47] See, e. g., *United Automobile Worker*, June 23 and July 1, 1943; also *ibid.*, the "Ford Facts" edition, July 1, 1943.

[48] In February 1944, the UAW-CIO international executive board adopted a resolution calling for more vigorous measures in dealing with unauthorized strikes. See *United Automobile Worker*, March 1, 1944. The new policy has already been applied in several cases.

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Reuther indicated a willingness to support a Negro for board membership provided one of satisfactory caliber was available but strongly objected to making special provision for such a position on the ground that it constituted a segregation policy. But the Addes group promised to support a constitutional amendment creating an additional board membership to deal with minority problems.[49] The entire issue became enmeshed almost immediately in union politics, each group accusing the other of using the Negro issue as a pawn in the coming struggle for union domination. To a certain extent these charges were well founded. It was apparent that the margin of victory in the forthcoming convention would be small for either faction, and the approximately 150 Negro delegates constituted a valuable bloc of votes.

The convention opened in Buffalo on October 4 with most of the Negro delegates pledged to the Addes faction in return for support on the above-mentioned constitutional amendment.[50] The constitution committee submitted two reports on the minority representation proposal, however. The majority recommended a constitutional amendment providing for the establishment of a "minorities department" headed by a director appointed by the president with executive board concurrence. The minority report also proposed a minority department but provided that its director would become a board member with one vote. The entire issue became a bone of contention between rival political factions. In the end both reports were voted down.[51] The convention debate aroused violent racial passions,[52] but it is not possible to say that it crystallized racial animosities.

[49] See, e. g., *Michigan Chronicle,* September 4, 18, 25, and October 2, 1943.

[50] *Michigan Chronicle,* October 9, 1943; *New York Times,* October 9, 1943. In view of the slim margin by which he was reëlected to office it is apparent that without the vote of at least 90 per cent of the Negro delegation George Addes would have lost to Richard Leonard in the secretary-treasurer election. Addes' margin was 71 votes.

[51] See UAW-CIO *Proceedings,* 1943, Sixth Day, Evening Session, pp. 17-35; also *Michigan Chronicle,* October 16, 1943.

[52] During the later discussion of the annual resolution condemning employment discrimination and calling for a more complete integration of the Negro in union affairs, for the first time in the union's history the convention heard

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Sincere advocates of both sides of the question were agreed on the end desired. The controversy raged over the means for achieving this end. It is evident to the writer that special techniques are required for dealing with special problems of Negro workers. Those who assert that their difficulties are fundamentally the same as those of other racial, religious or cultural groups oversimplify the case, for the differences in degree of intensity are so great as to amount to differences in kind. The ultimate goal expressed in the union constitution is the eventual obliteration of all minority group distinctions in so far as they are reflected in the opportunity afforded individual workers. This would seem to militate against the creation, by constitutional provision, of special offices to be filled by members of particular minority groups. (Though the minority report did not specifically stipulate that the new board member was to be a Negro, it was generally agreed that this was the intention.) Moreover, the existence of such special officers would make it easier for other officers to avoid their responsibility for enforcing the union's nondiscrimination policy.

Yet particular techniques and more definitive policies are required to overcome the handicaps which Negro workers now suffer. For this purpose special committees or departments appear appropriate to formulate the most effective techniques. The function of such organizations must necessarily be limited to investigation and recommendation, since enforcement can be carried out adequately only by duly elected union officers. The enforcement itself can be punitive only in a highly limited sense. How far, for example, can either local or national officials go in cracking down on anti-Negro elements? When they comprise a definite minority, they usually can be dealt with effectively. But, to illustrate the other extreme, can or should officials go so far as to revoke the charters of particular locals where opposition to racial equality on the job is entertained by a majority of the membership? From both practical and theoretical viewpoints the answer would seem to be in the negative. No policy can be really effective without majority support and, where this is lacking, the only approach open is the painful proc-

speeches condoning racial discrimination. Nevertheless the resolution was adopted. UAW-CIO, *Proceedings*, 1943, Seventh Day, pp. 28-35.

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ess of education and discussion. Union officials do not possess the authority of management in dealing with individual workers save where some variance of the closed shop exists, and even in the latter case the democratic process itself is a check-rein upon the union hierarchy.

Fortunately, the locals in which the white majority firmly believes in unequal opportunity based on race are few. The principal task thus lies in revealing to the membership the effect of undemocratic actions which result in negating their own ideals and in revealing in their true light extraneous issues usually raised by a discriminatory minority to secure wider acceptance of its goals.

Conclusion

It is obvious that the union's entrenched position, a position from which it probably will not be uprooted in the predictable future, gives it considerable power to determine the Negro automobile worker's industrial status. Thus the future of the Negro depends in large measure upon the degree to which he is integrated into union life. Experience has shown that full participation is the most successful means of dispelling resentment among white workers. Moreover, by rising to positions of union authority and by intelligent use of the union legislative process, Negro workers can go far in ensuring for themselves a greater share of the benefits derived from equal economic opportunity.

Full participation is now more necessary than ever; for the simple fact is that the union's practical dependence on the Negro declines in inverse proportion to its rise in strength. During the earlier organizing period the union necessarily went to considerable length to gain Negro allegiance. The extension of organization to practically the entire industry and the growth of union security provisions (union shop, maintenance of membership, et cetera) have reduced this reliance. If Negroes as a group prove a hindrance to the automobile labor movement through failure to assume full membership responsibilities, the union is in a position to do them grave harm.

While efforts to displace them wholesale are highly improbable, in view of seniority rights, more possible is a movement to

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decrease Negro representation through barring the entrance of Negro replacements. Two factors could very easily affect the situation. One is constant technological advancement which has received a tremendous impetus during the war period. Before the war, management employed Negroes primarily for those jobs least desired by white workers. As those positions become more desirable the number of occupations occupied by Negroes, at least partly through white worker default, will be reduced. Thus, white workers might conceivably be hired into present "Negro jobs". Widespread post-war unemployment would increase this possibility.

The second factor concerns the possibility that management may some day grant the closed shop. Union officials now claim no desire to control recruitment but new conditions may produce a change in attitude. Were such an eventuality to occur, a poor record of Negro union participation coupled with the above-mentioned diminished disutility of the presently less desirable occupations might induce the union to adopt an exclusionist hiring procedure. (The exclusion need not be formal in the sense of constitutional provision. It might be exercised through tacit agreement, as in some AFL unions.)

The Negro's future depends to a considerable extent upon the quality of the union leadership with respect to its success in securing greater conformity between union practices and ideals. The present leadership is motivated by the principle of race equality in the union and the industry and it does not appear that its viewpoint on this score will undergo any drastic change. UAW-CIO leaders, in particular, are uniformly young and as a group appear to be well entrenched. From the standpoint of the Negro worker this is definitely advantageous, since it has been noted that a strong and enlightened leadership is an important factor in shaping trade-union practice as well as policy. But over against this should be balanced the tremendous expansion in membership which has brought into the union large numbers of workers bitterly opposed to equality between Negroes and whites on the job or in the union. This development has offset the influence of the national leaders on this problem.

Two other conflicting tendencies now at work in the relations of white and Negro workers may be indicated. Increased Ne-

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gro participation in union affairs lessens the possibility of race friction, since collective action furnishes a vantage ground from which workers of the two races are able to see the common character of their interests. But under the stimulus of war-time conversion the union has provided a good vehicle for the advancement of Negroes to higher categories of employment and this development has upset the occupational status quo. In consequence, race tension has increased. Hostilities engendered in this fashion appear to be of a short-run character, however, and very likely the new situation will itself become a status quo.

Thus far the discussion has been confined to the question of whether the Negro will hold the status he has recently attained. In closing, the prospects for improvement in the Negro's position with respect to the number and quality of jobs may be raised. A slow but steady advance in the occupational distribution of Negroes already in the industry seems likely. But the prospects for an increase in employment, either in the absolute sense or relatively, are not favorable. The union is now dedicated to obtaining the introduction of Negro male and female workers into plants from which they are now barred. Yet the tremendous difficulties encountered in upgrading Negroes in establishments where they have been traditionally employed in large numbers would suggest that progress in plants where they have been all but excluded will be extremely slow. For in these plants the opposition of both white workers and management must be taken into account; and if the local union officials decided to sponsor a program of full and equal opportunities irrespective of race in these sections of the industry, very likely they would run the risk of political suicide. Only with the most vigorous coöperation of management, which in this instance would amount to a sharp reversal of policy, would such a program have any chance of success. This naturally leads to the question as to whether government itself may not be the most effective agent in bringing about nondiscriminatory hiring practices in plants now following exclusionist policies.

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FULTON AND THE ECONOMICS OF INVENTION

ROBERT FULTON has achieved immortality as the inventor of the first financially successful steamboat. But fame is always narrower than life, and in life Fulton was promoter, pamphleteer and business man; a business man, moreover, whose locus of activity spanned the Atlantic. Inventor, economic pamphleteer and Jeffersonian partisan, he shuttled between the United States, England and the continent to promote his inventions, using the best political and economic arguments that the climate of opinion of his time, as well as circumstances, placed at his disposal. In England he tried to promote the building of canals, arguing that they would develop the economy; in France he sought to sell the submarine "torpedo", more properly a "mine", which would end the dominance of the British navy; and later in the United States he promoted the steamboat which finally brought him great renown.

Robert Fulton was the bright young man who left his humble home to make his fortune in the world; and his experience echoes Paine's and that of myriad others. In 1786, at the age of twenty-one he left Pennsylvania to study painting in London; he became, in short, a garret painter. From painter to craftsman inventor seems a great distance today, but in the eighteenth century it was not so. Specialization was not so advanced in any of the branches of learning and endeavor; and the relation between the arts and crafts was much closer. Painting, drawing, architecture, a little chemistry and construction belonged together. Like so many others, he had been artist and mechanic at the same time at home. Besides, Fulton's was a versatile and lively mind. For a while he painted portraits and miniatures without shining success. We are hardly surprised, therefore, to meet him in 1796 trying to "sell" to the British government and private men the idea of cheap

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canals, to provide "easy communication with the marts of trade." In a book published in that year he elaborated an economic analysis, drawn from Adam Smith and other more or less popular writers, to show how his particular schemes would promote the wealth and power of England. His argument was familiar and for that very reason an effective weapon for his cause.

It was natural to find him arguing that cheapening communication would promote enterprise and thus increase the common stock of the nation and fully develop its resources. The main argument was that canals, as compared with roads, saved manual labor in construction, maintenance and use. But while reducing labor costs, canals multiplied produce and thus in turn increased population which, by creating a greater demand, pushed improvement to a higher spiral.

It so happened that England had been developing large-scale lock canals. Fulton's scheme stressed the use of small canals, requiring relatively little capital and only small boats, and carrying traffic not only between great trading areas, but also between local communities; in short, the ancient road eventually was to be abolished. Of course, the great lock canal companies, he argued, would immediately fly to Parliament and demand restrictions on the ground of protecting their investments and the value of affected mill and land property. A wise legislature, however, knows that competition is "the true polish of society." It always takes as little profit as it can afford, but "monopoly as much as it can draw." Competition, therefore, should be encouraged, restrictions should be as few as possible, and "circulation [should] be as free as the air we breathe."

Typically casting his net in several directions, Fulton addressed the governor of Pennsylvania, a state which was then a center of interest for canals. His argument here took on the cast of the peculiar necessities of a vast inland and undeveloped area. The state, he maintained, must provide the capital, and the returns would not only repay the cost with a profit, but increase the value of land by increasing profitable commerce. Whereas in England the rôle of Fulton was that of promoter, constructor and operator, in Pennsylvania it be-

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came that of contractor, engineer and perhaps operator of a government enterprise. The functions varied only in form, and Fulton was not a stickler for form; for, a year later, he was willing that a private corporation undertake such construction in the United States, which he knew generally meant substantial financial aid from the government.[1] But his canal schemes, though they had some financial support from Robert Owen, made no headway in either country.

Despairing of success in England, Fulton betook himself in 1797 to Paris where he lived with his fellow American, Joel Barlow, formerly an American Revolutionary War chaplain, now merchant, filibusterer, pamphleteer and promoter, and always a poet.[2] The two men formed an excellent combination. Barlow had not only learning and political skill but a literary command of both French and English which proved invaluable in preparing commercial addresses and memorials. Both were active friends of the French Revolution and all its successive governments, and both were concerned not only with business in general but particularly businesses in which official friendship was very useful. In this period of unending wars, with their blockades and restrictions on commerce, Barlow's constant preaching of complete freedom of external sea trade fitted in neatly with Fulton's water projects, so that Fulton became an ardent disciple of Barlow and Barlow invested in Fulton's ideas.

They were soon busily engaged in showing the authorities how the revolutionary movement could be fostered, through promoting their specific enterprises. Fulton suggested to the French Directory, as "the friends of mankind", that it should abolish tariffs on imports, give up colonies and all restrictions on external commerce, and thereby promote trade. Let the government collect its revenue from the operation of a network of small canals to cover all France. The argument that such free trade would expose France to ruinous competition from English manufacturers, Fulton answered in a num-

[1] *A Treatise on the Improvement of Canal Navigation* (London, 1796), pp. 112-113, 136-138; to President Washington, Feb. 5, 1797, in H. W. Dickinson, *Robert Fulton, Engineer and Artist* (London and New York, 1913), p. 57.

[2] Joseph Dorfman, "Joel Barlow: Trafficker in Trade and Letters", POLITICAL SCIENCE QUARTERLY, vol. LIX, no. 1 (March 1944), p. 83.

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ber of usual ways. First, France would maintain her competitive position and full employment by specialization in fine fabrics and wine, and any agricultural goods which would find a market in England. Secondly, if full employment could not be provided by agriculture, subsidies from the profit of canals might be used to encourage home manufactures and induce ingenious foreigners to establish their plants in France. Finally, there was no way to stop the "importation" of cheaper goods anyway.[3]

Fulton urged these doctrines of free trade and canal construction on other influential men, including General Bonaparte. He wrote his fellow engineer and republican that the "system of exclusive commerce and distant possessions" made for war not only among monarchies but also among republics. Instead of restricting external trade, government should devote itself to "internal improvements". When France conquers England, it should therefore still further extend freedom of trade.[4] While this argument might seem Utopian, Fulton and, more so, Barlow might hope for at least a slackening of the mercantilistic practices which impeded the free flow of commerce and profits.

Fulton passed from this attempt to liberalize the commercial policy of France to an attempt to liberalize sea trade in general by destroying the naval supremacy of England. When he turned to this, he was in his favorite sphere of inventive engineering. He developed a "torpedo" and "submarine". The "torpedo" was a "submarine mine", not a projectile—an immovable affair intended to be anchored, dragged by a boat or allowed to drift with the tide and to explode by concussion." The submarine was an underseas boat, or "plunging boat", to carry these bombs to their destination unobserved.[5]

His devices, Fulton wrote the Directory, would destroy the British navy and facilitate a French invasion to bring about

[3] "Thoughts on Free Trade", Oct. 9, 1797, English manuscript copy in Seligman library, Columbia University. The French manuscript has been published in the *Bulletin* of the New York Public Library, August 1901, vol. 5, No. 8.

[4] To Bonaparte, May 1, 1798, in Dickinson, *op. cit.*, pp. 68-70.

[5] William Barclay Parsons, *Robert Fulton and the Submarine* (New York, 1922), pp. 151-152.

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a revolution in favor of republican government there. With England republicanized, the seas would be free. The liberty of the seas in turn would become a guarantee of perpetual peace to all maritime nations. France, because of its superiority in resources and population, would then hold the balance of power in Europe. The instrument might appear revolting, but "it is certainly the gentlest and the least bloody method that the philosopher can imagine to overturn this system of brigandage and of perpetual war. . . and to restore men to their natural industries." [6]

At this point Fulton passed easily to the novel trade of naval *condottiere,* for he proposed no less a measure than that the naval might of England should be met by an instrument of destruction wielded by a commercial company. Under his proposal the French government would pay his company a handsome amount for every naval ship sunk. All prizes of British vessels and cargoes taken by the company would become its property, and the company would have the exclusive right to use the invention from all the ports of France, except when the government wished to do its own construction, in which case the government was to pay the company 100,000 livres in specie for each vessel built. If war with England ceased within three months, the company was to be reimbursed for its expenses. "I hope it may be stipulated", wrote the inventor, "that this invention, or any similar invention, shall not be used" against the United States unless the United States shall "first apply the invention against France."

Fulton stressed also that since "fire ships or any other unusual means of destroying navies are considered contrary to the laws of war, and persons taken in such enterprise are liable to suffer death", the government must give the company's agents commissions in the French navy, specifying that all persons captured on these expeditions shall be treated as prisoners of war, or a fourfold retaliation would be taken against British prisoners.[7] The Directory turned down this and subsequent offers. The Minister of Marine held that commissions could

[6] To P. J. N. F. Barras, Oct. 27, 1798, in Dickinson, *op. cit.*, pp. 90-91.

[7] To the Executive Directory, Dec. 13, 1797, in *ibid.*, pp. 74-75.

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not be given, for men practicing such means of warfare could be considered no better than pirates. Besides, retaliation would not be effective since England had three times as many prisoners as the French.[8]

With the overthrow of the Directory in 1799, and the rise of Napoleon to supreme power, Fulton's hopes became brighter. Napoleon gave encouragement until he became convinced that the engines were not practicable, at least immediately.

Following his now ingrained habit of peddling his projects from government to government, Fulton tried the Dutch, but with no greater success. The English government, however, stirred by the reports of such a terrifying invention, entered negotiations in 1803 for his naval devices. Under a contract made the following year, Fulton was in a position to make at least £40,000, if his scheme proved successful. He now felt that he was already engaged in destroying the "tyrannic principles of Bonaparte . . . [who] should be hunted down as the enemy of mankind."[9]

Unfortunately the British government eventually came to agree with Napoleon, concerning the impracticable nature of the invention. Fulton conducted an arduous campaign with the British ministry in which he contended that he had performed his part of the bargain and that the government had not properly tested his device. In the end he received, for two years' work of experimentation, the not inconsiderable sum of £15,000.[10]

By this time Fulton was on his way to America in order to put into practical operation an invention which he had developed while in France, namely, a steamboat. But he never forgot the "torpedo". It remained the invention dearest to his heart, and through letter and pamphlet he pushed for government encouragement with some success. The Republican

[8] *Ibid.*, p. 77.

[9] To Lord Melville, cited in Cadwallader Colden, *The Life of Robert Fulton* (New York, 1817), pp. 48-49.

[10] *Letters Principally to the Right Honourable Lord Grenville on the Submarine Navigation and Attack* (privately printed, London, Sept. 23, 1806); to Joel Barlow, Sept. 1806, in Charles B. Todd, *Life and Letters of Joel Barlow* (New York and London, 1886), p. 209.

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administrations of Jefferson and Madison were friendly to schemes that might destroy what they considered the oppressive power of the British navy over the commerce of neutrals.[11]

England's enterprising and commercial people, argued Fulton in a pamphlet published in 1810, have taken full advantage of the great technological advance in "chemistry and mechanism" that has developed immense resources and multiplied the produce of productive labor, but the profits of this superiority, instead of being devoted to internal improvements, have gone to enable England to build an ever larger navy to oppress commerce. America lacks adequate pecuniary resources to build an effective navy, but the "torpedo" is much cheaper. Best of all the "torpedo" is "republican", because every order of things tending to remove oppression and to ameliorate man's condition by directing his ambition to useful industry is republican. Every system nourishing war, with its consequent thousands of idlers and oppressors, is aristocratic.

Under the circumstances Napoleon became again a hope of republicanism; he, too, was trying to destroy the British navy, and the United States was edging toward a rupture with England. Many people have a foolish fear, Fulton said, that if Napoleon gets command of the seas, he will reduce London to ashes and utterly destroy the civilization and economy of England. But Napoleon well understands that Europe benefits tremendously from English arts and industry. He is not opposed to England making profits from her skills but to her devoting these profits to building a navy and interfering in continental affairs. If Napoleon had the "torpedo", he would use it to destroy England's navy, and give "so ingenious, industrious, enterprising, and estimable a people, a perfect liberty of commerce." But Fulton claimed that he himself was "wholly attached" to his country.[12] He got some government aid for tests and the ardent support of the most radical republican organ, Duane's Philadelphia *Aurora,* but the experiments turned out again with poor results.

[11] Joseph Dorfman, "The Economic Philosophy of Thomas Jefferson", POLITICAL SCIENCE QUARTERLY, vol. LV, No. 1 (March 1940), p. 98.

[12] "Torpedo War, and Submarine Explosions", 1810, reprinted in *Magazine of History with Notes and Queries,* 1914, Extra number 35, pp. 38, 42, 49-50.

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Fulton also did not forget his old love, canals. The savings which would be effected by disposing of the need for navies (through the use of "torpedoes") might well be turned into canal improvements. In the running controversy over this type of waterway Fulton played a public, rather than a strictly commercial, rôle. It is interesting to note that in urging extensive canals he developed the vision of a great united nation knit by trade and transportation connections against all possibility of division and disintegration, but in pressing for the steamboat he relied on the existing instrumentality of states, and privileges which rested on an extreme form of states' rights.

When Secretary of the Treasury Albert Gallatin sought his advice in 1807, in developing a program of government aid for canals, Fulton responded enthusiastically. The canals would forever end the intrigues for a separate government in the West. Some irresponsible leaders had argued that, since the inhabitants beyond the mountains were cut off from the Atlantic seaboard, they should use their resources to divert communications southward (on the Mississippi) instead of eastward and that they were too remote from the government seat to enjoy fully the advantages of the Union. Others held (as did Montesquieu) that the country was too extensive to remain a republic. But these had taken their examples from the European monarchies. Such states had arisen out of the feudal habits of warriors whose minds were bent to the absolute power of the few and the servile obedience of the many.

All the critics, Fulton believed, had failed to appreciate that men are creatures of habit, and that their habits as well as their interests may be so combined as to make separation impossible. England, once seven petty kingdoms, had by habit been combined into one. Scotland had become united to England, by hereditary succession, and was bound to her by habit, turnpike roads and canals. The United States likewise could be consolidated by canals, by cheap and easy access to markets in all directions.

The Union must engage the interest of "every man to sell the produce of his labour at the best market, and purchase at the cheapest." This accorded, he said, with David Hume's notion "that the government of a wise people would be little

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more than a system of civil police; for the best interest of man is industry and a free exchange of the produce of his labour for the things which he may require." [13]

Yet later, when he joined with Gouverneur Morris and others in advocating and pushing state construction of the Erie Canal, Fulton employed arguments that brought him closer to a state than a national position.

A canal is in effect a great labor-saving machine owned "by a prudent and skillful manufacturer, the economy and profits of which are applied to extending his works and increasing his capital." The Erie Canal would be an immense object of glory and a vast and noble example to the sister states. It would be a source of abundant revenues obtained by the economy of labor and consequently a clear gain to the state. It would consolidate population. It would prevent the immense trade of the West going by way of the St. Lawrence and Canada, to New York's injury. It would draw forth revenues into and through this state. Tolls would quickly repay the cost of $10,000,000 and would not only obviate the need of any state taxes afterwards but provide funds for other internal improvements.[14]

But the direct object for which Fulton had returned to America was the steamboat. Of course the history of the steamboat goes back to earlier years and involves a good many figures besides Fulton. In fact the great interest in the steamboat appears to have been aroused by the work of the two other Americans, John Fitch and James Rumsey, who while Fulton was in Europe had been engaged in fighting in the public prints and legislative halls over priority, exclusive state grants and franchises. Fulton developed his idea in France while busily engaged on the "torpedo". He was fortunate in obtaining the financial assistance in 1802 of his fellow Republican, Robert R. Livingston, who had just come to France as Jefferson's minister, and this step was crucial, for the whole Livingston influence was thrown behind the project.

[13] To Gallatin, Dec. 8, 1807, in Albert Gallatin, *Report of the Secretary of the Treasury on the Subject of Public Roads* (Washington, 1808), pp. 108-123.

[14] To Gouverneur Morris, Feb. 22, 1814, in Colden, *op. cit.*, appendix, pp. 284-287.

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Livingston by virtue of his family and wealth as well as early services in the American Revolutionary War was one of the most powerful figures in the political and economic life of New York State. He was one of the authors of the extremely conservative constitution of New York, and held the leading judicial position in the state, that of chancellor. His economic interests ranged all the way from sheep raising to banking. Livingston had also long been interested in the steamboat. John Fitch had obtained in 1787, from the New York as well as other state legislatures, a fourteen-year grant for the exclusive manufacture and operation of steamboats. Though this luckless inventor and promoter had built steamboats, they had not been successful, and he committed suicide in Kentucky in 1798. Thereupon Livingston persuaded the New York legislature to transfer to him Fitch's exclusive right. He received a twenty-year grant with the stipulation that he must produce within a year a boat with the speed of four miles an hour. He joined with a brother-in-law, John Stevens of Hoboken, New Jersey, and another inventor of means, Nicholas Roosevelt of New York. However, their attempts did not immediately prove successful and Livingston thought that Fulton might have the answer.

Livingston easily enough obtained a further renewal of the grant, this time in Fulton's name as well as his own. A boat, the "North River Steamboat of Clermont", was placed in operation in 1807, and the following year the legislature provided that the exclusive charter of Livingston and Fulton was to be extended for every boat they produced.

But no sooner had the Fulton boat made its first run than there began a long war between rivals, not only over franchises and profits, but also over the relative merits of various inventions and subsequent improvements. Most notable among these controversies was that between Stevens, who now was engaged in independent efforts, on the one hand, and Livingston and Fulton on the other. At various times the parties, being more interested in business than in constitutional law, tried to reach an amicable settlement to their mutual advantage and profit and to the exclusion, incidentally, of other competitors. They

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reached an agreement between themselves at one time for division of territory throughout the country, but this was short-lived. Livingston complained that "everyone" seemed to want to go into the steamboat business, and that, "should our patents be out of the way, steamboats would ruin many proprietors and enrich none."

The controversies shaded off easily from ordinary business competition into the social aspects of invention and then into the constitutional issues of the scope of the federal powers to grant patents and regulate commerce.

Briefly stated, Stevens' position (like that of other rivals of Livingston and Fulton) was derived from a "loose" and liberal construction of the Constitution. The right of patent—which is a federal right—should enable him to employ his boat in New York waters, as indeed in the waterways of any state. If a state could convey exclusive rights to one of several alternative patents, then most patent rights were in effect nullified. This brought up the question of national against state powers but it also brought up another issue which, from a practical point of view, was much more important, that of free trade versus monopoly. If Fulton's federal patent or state grant could exclude all other patents and also later improvements, the progress of society and the increase of trade through competition would be impeded. It would, moreover, establish and maintain the privilege of the first lucky patentee and monopolist.

Except for the monopoly given Livingston and Fulton, Stevens argued, the waters of New York would be full of steamboats, and improvements would be carried to a surprising degree. If a person should find a better way of performing the same thing, why should he not enjoy the benefit; does not the patent law state that its object is to "promote the progress of science"?

It is interesting to watch the somersaults of Livingston and Fulton in asserting the right of a state to choose one patent from several alternatives and also to prevent any patent from being exploited in its jurisdiction. The basic concept used here was that of the power of the state to prevent activities detrimental to the general welfare.

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> Suppose Connecticut so fully peopled as with difficulty to support labouring classes by the manufacture of linens and woolen cloth. Suppose a patent granted for a labour-saving machine by which one man might. . . do the work of 500. . . . Virginia might encourage it as a useful invention, and Connecticut prohibit it as injurious.

Stevens' argument that subsequent patentees and improvers might be hurt was turned around neatly by Fulton and Livingston, who argued that unless the first practice was protected against subsequent ones, the incentive to invention would be destroyed. The state, considering the undertaking was expensive and hazardous, properly thought Livingston and Fulton should be encouraged by particular privileges. "Would it not be . . . unjust to rob the inventors of the reward held out to them merely because another person had later. . . found. . . another mode of doing the same thing?. . . Surely the last comer would have no complaint if his invention be not taken from him but merely prohibited where it is not wanted, or where prior engagements interfere with it." [15]

Of course, on the issue of whether their rights were monopolistic, Fulton and Livingston, as Jeffersonians, were bound to be sensitive. So sensitive were they, as well as the state legislators, that it was basic to their defense to contend that their right was, properly speaking, no monopoly. On this issue even a staunch Federalist would flinch. Their Federalist attorney, Cadwallader Colden, argued that "monopolies" are the offspring of despotism. "In such the monarch may grant, for his own private emolument, or to gratify the cupidity of favorites, exclusive privileges." Such monopolies are justly odious. "But can a grant, made upon good consideration by a free representative body, exercising its delegated power in a manner that will, in its opinion, best promote the interest of the community, be identified with a grant, emanating from the will or caprice of a sultan or king?" Those who contend that such a grant violates the right of property by interfering with the use of the property ignore the distinction between the title and the unlimited use of a thing. If the state, for

[15] Correspondence in Archibald Douglas Turnbull, *John Stevens, an American Record* (New York and London, 1928), pp. 241, 245, 249, 262.

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example, should grant fishing rights on the Hudson exclusively to an individual, there is no destruction of property.[16]

However the language might be strained, monopoly was still monopoly, and people did not like it. The Federalist, Gouverneur Morris, warned Livingston that "the word *monopoly* is of dangerous efficiency. That envy of wealth and talents [existing everywhere] is a prime mover in States, where popular power is unrestrained by political organization. It may turn the current of opinion against you, and it is too much the fashion of our day to swim with that current." [17]

The legal upshot was that during their lifetime the Fulton-Livingston monopoly was upheld by the state legislature and state courts headed by the ultra-Federalist chancellor James Kent. It was ironic justice that Fulton's own idea of an integrated nation based on free trade was vindicated after his death by the great Federalist, Chief Justice Marshall, who voided the grant, to the financial detriment of Fulton's heirs. The idea won out against private interest.

With characteristic ingenuity Fulton began to apply the steamboat idea not only to commercial transportation but to larger realms of finance and war. For example, in 1814 he and his associates elaborated a complex enterprise which involved obtaining a charter for a bank with note-issuing power, the raising of funds for exploiting coal mines, and the transportation and supplying of coal for various uses in New York. But the legislature, by this time wary of the inflationary dangers involved in the creation of more banks, and for other reasons as well, did not accede to the request.[18]

On the outbreak of war in 1812 between the United States and Great Britain, Fulton came forth with a scheme of steam frigates to serve in effect as batteries against an invasion force.

[16] *A Vindication of the Steam-boat Right Granted by the State of New York* (New York, 1819), pp. 9-10, 55.

[17] To Livingston, Oct. 21, 1811, in Jared Sparks, *The Life of Gouverneur Morris* (Boston, 1832), vol. 3, p. 273.

[18] *Plan for Supplying the City of New York with Fuel,* by the New York Coal Company (New York, 1814).

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He argued that a large number of frigates would be as effective as, and much cheaper than, a land force against invasion. The enemy's potential forces of 15,000 would require the maintenance of 100,000 defending Americans. This would embarrass the Treasury and cause loss of labor to farmer and artisan. As a "political economist", he calculated the loss to the country of this "productive" labor at 60 cents a day for 300 working days for 100,000 men, or $18,000,000, plus seven per cent interest on the sum paid the same men at 50 cents a day in the army, or $1,277,500, totaling $19,277,500 a year.

On the other hand, if the government built instead twenty frigates at $250,000 each, the annual interest charges would be, at seven per cent, $350,000; add to this the wages of $1.00 a day for 300 men on each vessel ($2,190,000 a year) and the loss of their labor in merchant service at 60 cents a day ($1,080,000 a year) and you have a total cost of only $3,620,000 instead of $19,277,500, a saving, in short, of over 80 per cent. In view of the brilliant successes scored by the less pecuniary-minded American naval commanders, it was perhaps fortunate that President Madison did not accept Fulton's suggestion that he be made Secretary of the Navy to put his novel plan into operation.[19]

Robert Fulton was a business man, promoter and engineer, but he was something more. He was also an artist and social philosopher. He was not untypical of the enterprising spirit of his era. It was an age of magnificent opportunities for men of talent with a sense of adventure. Rising to manhood in the troublous times of the aftermath of the American Revolutionary War, and maturing in the surroundings of the epoch of the French Revolution, he developed great ability to adjust himself to the sudden turns and developments that were constantly occurring.

That he had great technical and inventive skill is not to be questioned. He would have liked, at least in his early days, nothing better than a substantial government pension—what government little mattered—that would enable him to devote

[19] To Madison, Nov. 5, 1814, ms. letter in Columbia University library.

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his time exclusively to invention. But he also learned that government ministers and individuals of wealth and influence were not given to thinking in terms of the significance of inventions to progress, let alone to social welfare. Persuasion and bargaining and the promise of profit were essential elements of the situation. The contrast of his early poverty with the splendor of the English aristocracy was brought home to him sharply, as he sought commissions for painting and later patronage for his canal schemes. The atmosphere of wars, the great Revolutionary and Napoleonic, with its sudden overnight fortunes, was capable of calling forth the highest idealism but it also furnished opportunities for the exploitation of sordid traits.

It became easy for Fulton, as he sought a place for himself, to see his inventions, useful and destructive alike, in the glowing light of human welfare, and gently to convert all values into personal, money values. The "submarine" and the "torpedo" stood on the same level of civilization with the canal and the steamboat. In fact the instruments of destruction might, in his mind, acquire an even higher value than the tools of peace. Since the wealth of England depended on commerce and her navy protected her commerce, the real worth of his military instruments, which in the hands of another Power would destroy her navy, was obviously the profit of that commerce. He felt that he was being reasonable when he asked the British government for a minimum of £100,000, the cost of only one first-class British naval ship. By the same token the "torpedo" was just as valuable to the countries whose commerce was suffering from the "oppression" of British naval power.

Fulton was a republican patriot. In a sentimental way he loved the land of his birth, but he could convince himself and attempt to convince others that the sale of his military engines to foreign Powers was not disloyal. Indifference to the great value of his services and engines by the home authorities provided a handy excuse. "Will any American or liberal minded man call such actions sordid and wish me to abandon years of industry to the public good while neither he nor the government

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have offered one shilling to promote so glorious an enterprise?"[20] This attitude was not unusual for the inventor-business men of the day. Thus Stevens, in attempting to sell the Russian government his own plan of steam frigates and anticipating the question of why he did not sell to his own government, declared that "the indecision and procrastination which naturally pervades. . . a republican government" prevented it.[21]

To Fulton as to all other enlightened men, monopoly was a great bugaboo. But a mind that could view the "submarine" and "torpedo" as the harbingers of perpetual peace was hardly strained to regard his steamboat privileges, which even some Federalists thought was a monopoly, as simply the reward of industry. Fulton was responding, though perhaps in an exaggerated fashion, to the old notion that great enterprises stood in need of great privileges for encouragement and protection. All too frequently, however, the contest was over who was to get the privileges, and men irrespective of party affiliation—Federalists or Republicans—easily condemned in others what they themselves, when the opportunity offered, as arduously practiced and as vehemently defended as did Fulton.

Fulton was concerned with the welfare of the mass only in so far as he felt that the great leaders of industry, the technicians and inventors of all sorts, through their labor-saving devices, made possible an ever-increasing population and greater national wealth and power; for a populous and developed nation "can of course sell cheaper than her neighbor."[22]

Fulton was a republican but he was a living example of that definition of republicanism which he gave while seeking American governmental aid for his "torpedo": "Republicans are those who labor for the public good."[23]

JOSEPH DORFMAN

[20] Cited by Parsons, *op. cit.*, p. 143.

[21] Turnbull, *op. cit.*, p. 400.

[22] "Fulton's Projected Letter to Pitt", in Samuel Bernstein, "Robert Fulton's Unpublished Memoir to Pitt: Science in the Service of Liberty", *Science and Society*, Winter, 1944, p. 59.

[23] "*Torpedo War, and Submarine Explosions*", in *Magazine of History with Notes and Queries*, 1914, Extra number 35, p. 53.

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REVIEWS

The Time for Decision. By SUMNER WELLES. New York and London, Harper & Brothers, 1944.—431 pp. $3.00.

Mr. Welles's book is important for two reasons. His account of his 1940 mission to Europe and of United States diplomacy from the fall of France to the North African invasion is a valuable document, rich in first-hand historical information; and much the same may be said of his chapter on the Good Neighbor Policy, since in this too he had an active hand. Secondly, the book contains elaborate prescriptions for world pacification and future American foreign policy, and these are undoubtedly reaching widely and influentially over the public; so that the publication of the book is in itself a notable event. The volume merits careful and critical scrutiny.

In telling his own story Mr. Welles shows himself to be the kind of man who can make wise and prudent judgments on matters within the sphere of his immediate experience, but when he ventures into the field of interpreting the world crisis and prescribing for its solution he appears rather poorly equipped with charts and compasses supplied by thorough historical and political education. He is wanting in the Burkian spirit, in the vivid sense of depth and plurality in the political world. He has the "geometrical mind", and one may say of him what Pertinax has said of Paul Reynaud: that he is "only slightly tempered with intuition, flair, instinctive discernment, those qualities of the intellect which, in their silent workings, impel the reflective process toward the right action." Mr. Welles belongs to the school of political rationalism which assumes that there are no insoluble problems, that anything can be done if men will only devise the right plan. After reading this book no one need be much puzzled over why the very pragmatic Mr. Roosevelt, having won "the war for survival" and gone on to fight the war for world organization, chose to let Mr. Welles go from the State Department last year. There is a difference between architectural planning and actual building. The latter requires knowledge of the nature and strength of materials, of how things fit and join; and for the builder of durable peace this means close knowledge of nations, of their physical and cultural relations, their geopolitical interests. The statesman's task is not to impose design on chaos but to rediscover harmonies poten-

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tially resident in the society of nations. Having this knowledge and perceiving this task are marks of what Ferrero called the "constructive mind".

Mr. Welles's lack of it shows even when his thought is at work within his own province of specialized knowledge and interest. Sharply and with justice he criticizes the State Department for its blundering use of "recognition" as a weapon of diplomatic coercion. An evil result of this, in his judgment, has been to drive Argentina into virtual secession from "Inter-America", which he believes to be "the most advanced regional system ever to be evolved" and "an indispensable part of any international organization which may be established after the war." But is "Inter-America" a "region" in the sense that the Near East, the Caribbean and Danubian Europe are regions—that is, geopolitical areas which history and geography have linked with a special set of interdependent relations? If it is, why do Argentina and the United States, which are separated by five thousand miles and find much discord in their political and economic relations, belong to it, the while our contiguous neighbor and chief trading customer, Canada, does not belong to it but to another "region" called the British Commonwealth? Neither of these is a region in the geopolitical sense. One is a loose political association expressive of an ideological purpose; the other is a somewhat closer political association spread over the hemispheres and resting upon British expansion, tradition and global sea communications. Neither association forms a workable base for that regional organization which Mr. Welles, like most thoughtful men of today, sees as an indispensable substructure for an edifice of world peace.

With respect to Germany, for which Mr. Welles details a plan of partition, the historical ignorance here is truly frightening. He thinks Pan-Germanism and Prussian militarism are one thing, and he sighs regretfully over the dying out of 1848 German liberalism, not even suspecting that the *Grossdeutsch* aspiration of that time was Pan-Germanism in its early "liberal" phase. It was, he fancies, the democratic origin of the proffered imperial crown of 1848, rather than the prohibitive opposition of Russia and Austria, that caused the Prussian king to decline the honor. Mr. Welles even regards the unitary nationalism of modern Germany as an artificial creation of the General Staff; and this diminishes one's surprise at reading here again the absurd theory that Hitler is a mere tool devised by the General Staff. According to Mr. Welles, when the Nazis fall, the generals—unless we liquidate them thoroughly—will honeycomb the world with an underground organization to prepare for a new *Tag.*

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Such underground activities will probably wear the mask of Trotzkyite communism, and we shall have to stand vigilantly on guard against them; so that one foresees a post-war witch hunt for Trotzkyites. That should inspire much amusement at Moscow where, as Mr. Welles thinks, revolutionary communism is being transformed into Pan-Slavism, which seems to him an innocently pacific and non-revolutionary force. His notions of German and Russian history are not only vague but fallacious, yet he does not shrink from offering "solutions" for all the great problems in that part of the world. He proposes carving Germany into three states, the absorption of vast German lands by Poland, and the wholesale transfer of populations ("by courageous and radical steps") in order to Wilsonize, and this time thoroughly, the boundary lines of central and eastern Europe. Such measures he calls "surgical operations". Like Dr. Beneš, whom he admires greatly, Mr. Welles is a political doctor who resorts quickly to the knife.

In the concluding section of his book Mr. Welles offers a plan of world organization. It calls for a new league of nations equipped not only with power adequate to enforce global peace but also with "trustee" authority over colonial peoples and a multitude of international agencies at work on broad schemes of ecumenical improvement. The new league is not to come into full-bodied existence overnight but is to "grow gradually as a result of actual experience." A Provisional Executive Council, however, must be formed at once, for only this body is equal to the task of mastering immediate post-war boundary and security questions; not to have it would be a "fatal error". It should consist of the Big Four (the United States, the Soviet Union, Great Britain and China) plus seven other members chosen as "representatives" from regional groups of states: two from the European and two from the North and South American states, one from the Far Eastern states, one from the states of Africa and the Near and Middle East, and one from the British Dominions. It would be interesting to know how Mr Welles defines his idea of representation as well as his concept of a "region".

This Executive Council is to decide all questions by a two-thirds majority vote which must include the votes of *all* the major Powers. Presumably, when these are not in unanimity the Council will not be able to act. From that consideration there emerges a point of the highest importance that ought to be noticed by any one familiar with the working of the old Concert of Europe, which was the prototype of the world concert of great Powers that is now to be given institu-

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tionalized existence as the Executive Council in the new world organization. The members of the European Concert always found it easy enough to agree on matters that did not disturb the balance of power or touch harmfully the vital interests of any member of the Concert; that is, they could agree on comparatively unimportant matters, but the really grave issues never came within the sphere of the Concert's competence, or, if they did, they broke up the Concert; and even in small issues the Concert could be defied by lesser Powers (as the Balkan states defied it in 1912) because the great Powers were always reluctant to apply force in matters that did not threaten their vital interests. There is no reason to expect that this condition will not obtain in the proposed Executive Council, if its decisions require unanimity among the Big Four; so that, although on superficial glance we have what looks like a powerful world directorate, experience probably will show we have nothing of the kind. But Mr. Welles has a touching faith in its competence, and whenever he comes on a difficult problem for which he cannot propound a ready solution, he just deposits it prayerfully in the lap of the world organization.

To the inherent difficulties in forming and operating the new league Mr. Welles even proposes the addition of more by setting up exacting qualifications for membership. He says that "two great moral principles must from the very outset be an integral part of the constitution of even a provisional international organization." The first is recognition by all nations of "freedom of religion, of information and of speech", so that "every government, before it joins the world organization, should be obligated to demonstrate that its citizens are enabled to enjoy these rights through effective guarantees contained in their national constitutions." This puts some very important states on notice that they will need new wedding garments for the feast. The second "great moral principle" is the abolition of colonial imperialism and "white supremacy". Mr. Welles raises the banner of "Asia for the Asiatics"—but under the supervision of the world organization. Peoples not yet ready for political independence are to come under administrative trusteeships responsible to the world organization. Of course, in getting down to particulars he makes some exceptions. The Dutch and Chinese, for rather obscure reasons, are to get back everything with few world organization strings attached, and no American possession is to be subjected to international trustees. But British and French possessions in southeast Asia will get the new-style régimes; the whole network of British rights and privileges in Egypt and the Near and Middle East

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is to be internationalized, and the world organization will stand benevolently ready to assist in liquidating the British empire in India. If Mr. Welles really means what he says, he has put our British and French allies on notice that they will have to mend their ways before they are fit to form "an integral part of the constitution of even a provisional international organization."

Mr. Welles's global design rests on the conception of the United States and the Soviet Union as the "two greatest powers" in the post-war years, and there must be a common understanding between them else "the very cornerstone of any future international organization will be lacking." But "the thorny truth" is that such an understanding does not as yet exist. How to secure it? Apart from requesting the introduction of "freedom of religion, of information and of speech", Mr. Welles asks the Russians to hold "open plebiscites" in the Baltic states (a question the Soviet Union has already declared closed) and to observe the principle of national self-determination in settling their frontiers. In return he would accord the Soviet Union a free hand to develop a regional system—like Inter-America—throughout eastern Europe. Let the Union even absorb new members provided it does not "intervene directly in the internal affairs of those nations." Only in that event, says Mr. Welles, "would the United States . . . be entitled to object." In short, Russia may do as she pleases in eastern Europe, provided we approve what she does!

Mr. Welles seems constitutionally incapable of recognizing that American political ideas and methods are not universally useful, or of striving to build the new world with materials that actually exist. Not as they are will he handle them, but only as he thinks they should be. Just as he would have the United States spend itself with misguided benevolence to win all the nations from here to Tierra del Fuego to an arrangement that contradicts both their spiritual attitudes and material interests, so has he the cheek to ask Great Britain and Russia to enlist for an enterprise in world organization that must exact from them either a price they cannot pay or the adoption of policies in sharp disharmony with what they conceive to be their interests. Not ideology, but prudence; not geometrical planning, but the search for harmony among the real forces at work in the world of nations; not general formulas, but specific remedies—these are what the peace-builders need for their task. Even the importance of finding them seems largely hidden from Mr. Welles.

ROSS J. S. HOFFMAN

FORDHAM UNIVERSITY

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U. S. War Aims. By WALTER LIPPMANN. Boston, Little, Brown and Company, 1944.—xii, 235 pp. $1.50.

This book, dedicated to the late William Allen White, is the supplement which White requested to Lippmann's *U. S. Foreign Policy.* It could not, says the author, have been written earlier, since "war aims" are neither mere resolutions to win the war (like "unconditional surrender") nor abstract general principles (like the Atlantic Charter), but the concrete shape of things to come which will grow, organically, and almost inevitably, out of the course which the war is now taking in its later stages. "The peace will not be made after the fighting stops. It is being made, and, in great substance, is already made" (p. 6).

The first part of the book is a rapid narrative of the strategic facts which made it necessary for us to fight both Japan and Germany for the sake of our own security. This traverses familiar historical territory, and is notable only for the amazing clarity and lucidity with which the strategic points involved are arranged by the author's deft and practiced hand. Part two, the real "nub" of the book, is an exposition of the theory that the world is now divided into certain natural political regions: (1) the Atlantic Community, (2) the Russian Orbit, (3) the Chinese Orbit. Lippmann does not exclude the possibility of future changes (for example, he anticipates the eventual rise of a Hindu-Moslem Region of the Near East and India), but he evidently thinks that the present Earth is neither Willkie's One World, nor the legalistic seventy-odd "sovereign nations", but is divided, like Caesar's Gaul, into three parts. Peace depends on two factors, friendly agreement among the Big Three, and an organization of each region to make war impossible within its borders.

Part three is a rapid survey of the position of our present enemies. The general conclusion is that it is not profitable to speculate about either a hard or a soft peace; the important matter is to organize the defensive forces of the world so that aggression will be hopeless. Part four is mainly devoted to the delicate and difficult question of maintaining friendly relations between the Atlantic Community and Russia. All Mr. Lippmann can give us here are hopes. He admits that Russia is still a dictatorship, that a Russian quarrel with Britain or America would enable Germany to become once more a danger, and that we are powerless to coerce Russia in any dealings with eastern European countries. The best we can do is to give Russia a practically free hand within her own "orbit" and encourage liberal and democratic tendencies in her foreign and internal policy. Part

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five is a controversy with Mr. Lippmann's own former friends, the Wilsonian internationalists. Frankly and boldly he says, "Clemenceau was right and Wilson was wrong" (p. 162). A general international association is, indeed, a good and useful thing to cultivate friendly international relations in time of peace, but questions of war must and should be settled by the Great Powers alone, each as the spokesman of its own region.

Such is Mr. Lippmann's thesis, and a great deal can be said for it. He is the clearest of all writers on international policy, and one of the most incisive and forceful. He thoroughly knows his world of strategy, diplomacy and high politics. He is a realist who understands that statesmen do, in the long run, what they *must* do in the light of geographical and economic facts. His massive common sense knocks out the last teaspoonful of brains from the isolationists, short-sighted nationalists and sentimental pacifists.

But there is much in the book to make uneasy a reader who still cherishes hopes of a truly international organization. Might not Bismarck have written, "Let us not be so naïve as to think that the great issues of war and peace . . . will or can be settled by public debates and public voting in an international assembly" (p. 167)? Would not Metternich have endorsed the sentiment (deleting a reference to Americanism) that "the principle of self-determination is in an exact sense uncivilizing" (p. 174)? Would not Richelieu, Talleyrand and Clemenceau gladly have written, "While a universal society can reinsure national and regional security, it is not a substitute for solid frontiers, adequate and rationally planned armed force, strategic position, alliances among natural and necessary allies" (p. 176)? The calculated brutality of such phrases makes one fear either that Mr. Lippmann is trying to show the practical politicians that an intellectual can be more hard-boiled than they are, or else that he has despaired of the human race rising much above the level of Machiavelli.

Even those who cherish no Utopian hopes may query some points of the theory of the Three Regions. Granted that what happens in France is of nearer concern to America than what happens in Poland or Yugoslavia (both assigned to the Russian Orbit), it remains true that American soldiers have died because of wars that started in Sarajevo and in Danzig. If war begins anywhere it may spread everywhere. Argentina is really no nearer to us commercially, culturally or geographically than Czechoslovakia (and farther away from us in political ideals), yet, whereas the Czechs follow Russia, the Argentines enter the Atlantic Community, along with Franco's

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Spain and our recent enemy Italy. Surely Russia might raise an eyebrow at the inclusion of Greece, at the eastern end of the Mediterranean, with the Atlantic Community, while near-by Bulgaria is allotted to the Russian Orbit. It would seem self-evident that these differences in degree of interest are quantitative rather than qualitative: naturally, we are more concerned about Canada than about Peru; more concerned about Peru than about Borneo; more concerned about Borneo than about Ceylon; more concerned about Ceylon than about Tibet. But there is no point on all the round and airplane-reachable globe where we can draw a line and say: at this point our diplomatic interests end.

PRESTON SLOSSON

UNIVERSITY OF MICHIGAN

The Road to Foreign Policy. By HUGH GIBSON. Garden City, Doubleday, Doran & Co., 1944.—xii, 252 pp. $2.50.

No closed season restricts the critics of American foreign policy. Of late all three aspects of the problem—the State Department, the content of our foreign policy, and the merits of the personnel charged with its administration—have been subjected to an unusually heavy outpouring of criticism. Some of it is honest, impartial, and desperately needed. Some of it is obviously partisan, and some has the purplish tinge of sour grapes.

In this respect, Mr. Gibson's book is eclectic, and therefore of most uneven value. In spots, it is a wise and mature commentary on American foreign policy and diplomacy, but the total effect of the book is marred by the leitmotiv of partisanship which imputes most of our current difficulties to the shortcomings of the present administration. The net effect which the book strives to leave with the reader is that the record of the past decade is one of barrenness as to content of foreign policy and amateurish bungling in its administration.

The author is on firm ground when he argues that we have a crying need for a genuine foreign policy, in the sense of a "well-rounded, comprehensive plan, based on knowledge and experience, for conducting the business of the government with the rest of the world." He stresses, and rightly, the dangers of improvisation in policy-making, but there is a danger that his condemnation of our practice on this score will leave the reader with the feeling that all other countries have a master plan which foreign ministers and diplomats can apply automatically to the solution of any given problem. Obviously, this is not true because there must be an element of improvisation in the adjustment of any plan to meet a specific situation. What Mr. Gib-

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son apparently means but fails to say clearly is that we have not based our foreign policy upon a systematic assessment of American interests in external developments, coupled with an evaluation of just how far we would be able in each case to make those interests prevail if we were called upon to do so. He touches this point when he says that "we need a complete re-examination of our national position from the angle of 'put up or shut up' ", but he does not carry the analysis far enough to make it impressive.

The chapters on the conduct of our foreign relations constitute a belligerent and, on the whole, an effective defense of the professional diplomatist and his methods. Mr. Gibson is scornful about the use of special presidential agents and the appointment of amateurs, on the basis of campaign contributions or other party services, to important diplomatic posts. His righteous indignation, however, leads him to a position where he concedes nothing to critics of professional diplomacy. He sees no possible merit in the use of an amateur, even though he may have had wide experience in dealing with other peoples, and no fault in the career diplomat, no matter how limited his vision and abilities.

Most discussion of Mr. Gibson's book undoubtedly will center on his proposals for improvement in our system. Briefly, he suggests the establishment of a Council on National Defense to be a permanent agency for the study and formulation of American foreign policy. Equipped with a substantial research staff, this Council would consist of representatives of the State Department and all other governmental agencies involved in foreign affairs. Moreover, it would have representation from both the majority and minority parties of both houses of Congress. Thus constituted, this agency would undertake "to plot out in some coherent form a chart or statement of all the problems facing our government." On the basis of the study of these problems, a policy could be developed which represented the considered views of all the government agencies involved, and of Congress as well. Such an instrumentality would replace the present method of *ad hoc* consultation, and of developing a policy without adequately weighing all the factual and historical elements involved.

Whatever the merits of his particular suggestion, Mr. Gibson has raised two vital problems, the need for better inter-departmental machinery for the formulation of basic policy—as distinct from the solution of specific problems—and the equally great need for better organized, systematic research into the basic aspects of American national interests abroad. Both have been improvised during the war

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but they have operated with indifferent success, as they have lacked proper directive control and competent staffing.

The answer to these problems must be found by careful, patient and constructive thought. It will not be found merely by hurling verbal salvoes back and forth over the gray walls of the State Department. For all its lack of balance and occasional inaccuracies, Mr. Gibson's book should have some usefulness in this respect.

GRAYSON KIRK

Durable Peace: A Study in American National Policy. By ROSS J. S. HOFFMAN. London, New York, Toronto, Oxford University Press, 1944.—vii, 120 pp. $1.75.

This book is an effort by Professor Hoffman to bring his knowledge of European history directly to bear on the problems of the coming peace. With some reason he fears a lack of realism in American foreign policy—a failure, springing from ignorance and sentiment, to analyze and evaluate the practical issues in world organization. Ambitious post-war planning, dominated by preconceived ideas about the future world order, is an invitation to disaster and an encouragement to a revived pre-1940 brand of isolationism. Professor Hoffman might also weigh the dangers of a program of stark imperialism on the part of the United States, the outlines of which have already taken shape. Nevertheless, it is true that prevailing circumstances and existing power relationships have been the controlling factors in the peace systems of the past; and there is no reason for doubting that the case will be otherwise in the future.

The concern which seems to be uppermost with Professor Hoffman is the possibility of retaining a permanent alliance between the Anglo-American Powers and the Soviet Union. Lesser considerations, such as the satisfaction of chastising Germany and Japan, he avers, must be sacrificed to this end. "Let us hope", he exclaims, "that the American negotiators do not fall into the error of fancying that we are more interested in the fate of Lithuania or Bessarabia than in having Russia with us against Japan!" Furthermore, he foresees that the United States will be obliged to recognize Russian interests in Manchuria and elsewhere in the Far East.

That this is sound political instinct seems unexceptionable. But the reviewer fears the author has overdone the historical argument. Russia, it is said, saved Europe against Napoleon, against the Great German movement in 1849, and against Germany again in 1914-17. The account becomes still more one-sided when we come to the Allied

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intervention in Russia in 1917-20. Professor Hoffman goes to great lengths to excuse the Allied support of the White Russians. He admits the bankruptcy of this policy and the tragic consequences of the *cordon sanitaire;* but he seems to think that "resolute support to the limit for the White leaders" was a workable alternative. "Such a course," he adds, "carried out in a war-weary world, would have passed beyond courage and intelligence to heroism and political genius" (pp. 58-59). Aside from the question of clarity in a sentence such as this, why not simply confess the lessons of hindsight by dismissing the whole policy as foolhardy?

This is by no means the only passage in the book that strikes the reviewer as artificial. Nor is confidence increased by the inconsistency of Mr. Hoffman's scoffing at fears of a "battered and impoverished Soviet Republic", which he declares Russia will be at the end of the war, with his general thesis of the need for conciliating Russia and with his own expressed opinion, four pages beyond, that the Anglo-American Powers will have "neither the will nor the means to maintain mighty military establishments in Europe and Asia" in competition with her. From time to time occur sentences that sound very strange, such as the implication on page 67 that the war will end "when the German armies retire into their own country."

Nevertheless there are many sound warnings in this book. Its net effect is to induce the reader to take pause and to keep his eye on practical issues as they unfold. Mr. Hoffman thinks that neutralization of the Reich, after the manner of Belgium in the nineteenth century, will be sufficient. He is silent on the problem of controlling German industry in relation to Germany's war potential. And he reasons, with some force, that Great Britain, the United States and Russia cannot hang together in a long-term control of Germany. The doubt left in the reviewer's mind—and it is a dark one—is that if the three victorious Powers are unable this time to coöperate there is slight hope for a durable peace.

RICHARD W. VAN ALSTYNE

CHICO STATE COLLEGE
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Russia and the Peace. By BERNARD PARES. New York, The Macmillan Co., 1944.—xiv, 293 pp. $2.50.

This book is both broader and narrower in scope than the title would indicate. It includes a good deal of Russian history and of personal reminiscences about life in pre-war Russia. It omits de-

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tailed discussion of such important aspects of Russia and the peace as Soviet aims in Asia and prospective Soviet policy in relation to Germany. No doubt Sir Bernard might justify his silence on these questions by pointing out that Stalin has kept his counsel on these points pretty closely and that comment would therefore be based largely on speculation.

On the other hand, there is a fairly full discussion of Soviet relations with Poland, the Baltic states and the countries of the Balkans, and of such factors in future relations between Russia and the outside world as trade, cultural interchange and communist propaganda. The author surveys the Soviet Union from a vantage point of unusually rich knowledge of pre-war Russia. Sir Bernard was a pioneer in promoting Russian studies in England. He was for many years director of the School of Slavonic and East European Studies in the University of London and is an editor of *The Slavonic Review.* He spent many years in Russia before the Revolution and was well acquainted with many of its prominent political and intellectual figures, especially with those of liberal and radical sympathies.

Sir Bernard was a severe critic of the Soviet régime in its early phases. The Revolution had swept away the Russia he knew and loved, not, it may be noted, the Russia of the autocracy, but the Russia of the idealistic, forward-looking intelligentsia that was swept away by the same storm that engulfed the autocracy.

During the thirties, however, he was allowed to revisit Russia and his attitude toward the Soviet régime became more favorable. His present book is a plea for understanding between the Soviet Union and the Western democracies as a cornerstone of world peace.

The thesis of the present book may be briefly summarized as follows. Russia experienced a violent and destructive revolution, the fruit of evils and weaknesses of the old régime. This at first challenged religion and patriotism and committed itself to the dangerous and disturbing doctrine of world revolution. Stalin is the leader who saved the Soviet régime from its excesses. He restored the cult of Russian nationalism, he has more recently extended toleration to religion, and he has suppressed the Communist International and "liquidated" the more fanatical internationalists within the Communist Party.

Sir Bernard believes that, while Stalin will "stand for the frontiers which he feels that Russia has the right to claim", he will foster friendship with the smaller Slav states to the west of Russia, Poland, Czechoslovakia, Yugoslavia and Bulgaria, and will concentrate his

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main attention on the reconstruction and development of the Soviet Union as a great industrial Power.

In this development the author believes that America and Great Britain can play a fruitful part. Looking back over his range of past experience in Russia, he observes that "the Germans beat us easily in matters of detail, industry and knowledge; but when they made mistakes they were capital and decisive."

The picture of a Russia concerned with internal development and raising its standard of living and committed to the ideal of world peace is certainly attractive to the vast majority of Americans; and there are some reasons for believing that Sir Bernard's optimistic forecasts of the course of Soviet foreign policy will not be mistaken.

The Soviet Union is certainly the last country in the world that could reasonably complain of lack of *Lebensraum*. As Soviet orators and publicists like to point out, the Soviet Union contains almost one sixth of the land surface of the globe. While considerable areas of the frozen North and of the desert lands of Central Asia must be written off as permanently uninhabitable, except by a few Eskimos and nomadic tribesmen, there are large possibilities of growth and development in Siberia. The Soviet East in the second half of the twentieth century may play a rôle similar to that of the American West in the nineteenth.

All the forces of reason speak for a prolonged era of coöperation between the Soviet Union and its allies in the present war. Yet there are negative elements in the situation which Sir Bernard is perhaps inclined to underestimate. Very few Poles would agree with his statement, in discussing the Soviet-Polish settlement, that "Stalin has already shown that he will not prove unreasonable."

Not only is the Soviet-Polish border being drawn on a basis of unilateral force, but during recent weeks the Soviet government has been pursuing its policy of ignoring and disparaging the Polish government in London, a representative cross section of Polish political life, and has been treating as a de facto administration in Poland an obscure organization with little known leaders. To the great majority of Poles, regardless of their political and economic opinions, a Moscow-dominated government in Warsaw would be as objectionable as an outright Russian annexation.

While Sir Bernard is correct in hailing the diminution of doctrinaire fanaticism as a favorable omen for Soviet foreign relations, it would be premature to regard intensive nationalism as a guaranty of peace. The Soviet Union will emerge from this war unquestionably

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the strongest land Power in Europe and in Asia. It is too soon to know how it will use this new position of power. But some of the tendencies toward unilateral action that have been displayed in the past are not encouraging.

One scarcely finds in this book a full realization of the obstacles which the totalitarian nature of the Soviet régime creates for full and cordial coöperation with foreign governments. The author, however, from personal experience recognizes the great difficulties which up to this time have hampered the prosecution of studies in Russia by foreigners, and he very justly observes: "It is useless for Soviet officials to complain that the Soviet Union is so very ill understood in the world outside if we cannot have the first condition for knowing and understanding her."

The work covers such a wide field that some subjects are inevitably treated in rather sketchy and cursory fashion. However, there are some useful sidelights on Russian history, some shrewd comments on Russian character and an up-to-date description of the attitude of Russian emigrants, along with the material bearing directly on Russia's attitude toward the peace.

WILLIAM HENRY CHAMBERLIN

CAMBRIDGE, MASS.

Unfinished Business. By STEPHEN BONSAL. Introduction by Hugh Gibson. Garden City, Doubleday, Doran and Co., Inc., 1944.—xiv, 313 pp. $3.00.

In 1918, Stephen Bonsal was an officer at General Headquarters, United States Army. At the request of Colonel House, he was assigned to the American delegation at the Paris Peace Conference, where he served as special adviser to House, interpreter at the meetings of the League of Nations Commission, and, in the months following the Conference, investigator in Central Europe. During the course of the negotiations at Paris, he began to keep a diary, extracts of which are now published for the first time.

Mr. Bonsal disclaims any intention of presenting "a rounded historical narrative". These are, he says, "fragmentary notes" which may be of interest to the historian or to the general reader. The volume is divided into seven sections, only three of which treat of the Peace Conference proper. The first section deals briefly with the period between the Armistice and the opening of the peace negotiations. The second section tells the story of the first draft

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of the Covenant of the League of Nations. This is followed by an account of a series of conversations with Clemenceau in February 1919, immediately after the attempted assassination of the French Premier. The fourth section is an account of a trip made to Austria, Czechoslovakia, Hungary and Yugoslavia in April 1919. In the fifth, the battle over the American amendments to the League Covenant is outlined. The sixth section is devoted to Mr. Bonsal's visit to Berlin in September 1919, while the concluding section deals with the final defeat of the Versailles Treaty in the United States.

The professional historian will find little here which has not already been brought to light. Mr. Bonsal's diary does, however, give a striking picture of the air of confusion which pervaded Paris during the negotiations. In passages of profound relevance for our own time, the diarist shows how the unity of the Allies dissolved in the months following the Armistice, a fact which in itself made a systematic approach to the problems of peace virtually impossible. He shows also what a large share of the responsibility for the muddle at Paris must be borne by President Wilson. Before Mr. Wilson's arrival in Paris, the other negotiators were agreed that their task was, first, to conclude a preliminary peace with the enemy and, after that was done and popular passions had been allowed to cool, to draw up a definitive European settlement at a second conference in which all Powers were represented. This procedure had the advantage of separating clearly the problem of ending the war from that of laying the bases of peace. It became impossible, however, to follow this plan, for President Wilson insisted that the first task of the Conference should be to establish a League of Nations and that the League Covenant must be included in any treaty drawn up. The President had his way, but the result was that, throughout the Paris meetings, the question of liquidating the war was inextricably confused with that of establishing the wider settlement.

The importance which the President attributed to the League of Nations not only weakened his position at Paris but played into the hands of his enemies at home. To secure general assent to the first draft of the Covenant, the President was forced to grant the Allies territorial concessions which were inconsistent with the Fourteen Points. When it became apparent that the first draft of the Covenant was unacceptable to the United States Senate, Mr. Wilson was forced to reopen the League discussions in March 1919 and to introduce new amendments designed to overcome senatorial opposi-

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tion. This, as Mr. Bonsal's diary shows, merely encouraged the Allies in their turn to ask for further concessions, and again the President was in no position to refuse. But to hostile critics at home, every concession to the Allies was a further departure from Wilson's declared principles; and, as the negotiations proceeded, so did the slump in idealism in the United States.

The long-run consequences of the confusion and disorganization at Paris were apparent even before the negotiations were completed. The abandonment of the original plan to have two conferences meant that the enemy Powers were denied any voice in the peace settlement. The decisions made at Paris were simply imposed upon the enemy, and this left Germany especially aggrieved and vengeful. One of the most absorbing sections of Mr. Bonsal's diary is that describing his visit to Berlin in 1919. During this trip he sensed the growing tide of bitterness, and German leaders warned him that, if Germany's needs were disregarded in the future as they had been at Paris, the whole peace settlement might be endangered. "Tell Colonel House," Count Bernstorff told him, "if we could get a little raw material, a little moral support . . . we will get out of the woods, I think, but—. That is quite a considerable 'but.'" Walter Rathenau was even less hopeful. "Today, economically," he told Bonsal, "Germany is dying, and the gangrened corpse that will result . . . will infect the world."

Despite its fragmentary nature, this volume is an interesting account of peacemaking twenty-five years ago. It has, however, some highly irritating features. For one thing, despite Mr. Hugh Gibson's introductory statement that this diary is "undoctored", the text has not been left in its original form. Frequent, and often confusing, additions have been made to the original. Thus, in the entry for February 7, 1919 (p. 32) we find a reference to the "House papers now available to students in the Sterling Library at Yale", which could not have been written in 1919. In the entry for April 12, 1919 (p. 140) we are informed that Bela Kun left Hungary in August of that year. Under the date of September 25, 1919 (p. 230) we are told of Rathenau's murder in June 1922. These and other additions are perhaps unimportant and can be discovered easily by the careful reader. Since the volume purports to be an original source, however, it would have been wiser to spare the reader that task by giving him some editorial assistance.

GORDON A. CRAIG

PRINCETON UNIVERSITY

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The Tyrants' War and the Peoples' Peace. By FERDINAND A. HERMENS. With an Introduction by Robert M. MacIver. Chicago, University of Chicago Press, 1944.—xii, 250 pp. $2.75.

Here is a book by an unregenerate democrat. A close student of history and government, he brings to his task the reputation of a man who can reason closely, as he did in *Democracy or Anarchy?*

Dr. Hermens has written of the past and the future, in a Christian spirit. The book is his contribution to the vexing question of the future of Germany. On the whole, it is a sharp and explicit rebuttal of Vansittartism and the views of the large group of writers and propagandists who believe that drastic measures of punishment are the most promising method for preventing World War III. The author makes a laudable effort to stick to factual evidence in answering the statements of those he combats.

The main theme, as expressed in the title, is the absolute antithesis of democracy and tyranny. While his concept of democracy is not specifically developed, it is clear enough that he has in mind what is customarily understood by the word in America, a popular government tempered by constitutional limitations and individual liberties. By a tyranny he means a government such as that of Hitler, lawless, absolute, unrestrained—the totalitarian nightmare which has become only too familiar in our day. It is obvious that this dichotomy bears some resemblance to the distinction between constitutional and unconstitutional government, i. e., between a government of divided and limited powers and one of unlimited, concentrated powers. The terms tyranny and democracy, however, are much more emotion-laden, and since they are not simple negations of each other, they leave open the question of the systems which are neither democracy nor tyranny (e. g., China, or military government); for it is obvious that a government may be very authoritarian without being lawless. The emergence of such governments seems not entirely out of the question.

This book is divided into a number of chapters which follow an historical pattern. The author begins with a brief examination of certain vague generalities of a socio-psychological type. Dr. Hermens insists that the democratic creed is the creed that *all* men are created free and equal." Thus in his first and introductory chapter, he offers a discussion of the popular controversy about Germans and German national character. He makes short shrift of some of the more common views, controverting them by questioning the value of the concept of national character altogether.

The second chapter contains his analysis of Vansittartism. He

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would have strengthened this materially had he given a brief summary of Vansittart's position. This is followed by a rather disjointed chapter iii, commenting on various phases of German history between 1918 and 1933 which Hermens believes have a bearing on the Vansittart position.

The following three chapters contain a broad-gauged analysis of the Hitler régime. Rightly, Hermens insists that it was not the Treaty of Versailles, but the depression and the unsound German constitutional structure, especially proportional representation, which were responsible for the collapse of the Weimar Republic. Hermens is well known as the most vigorous exponent of the view that proportional representation had much to do with bringing down German democracy. It was all a great tragedy in which everyone, to quote Emil Ludwig, "did what he did not want to do."

The key to his discussion of tyranny is the statement, "The tyrant rules by terror." This very sound and basic observation is, he feels, continually forgotten by those who strive to saddle the German people with moral responsibility for the acts of the tyrant and his accomplices. Taking up the relation between force and consent, he argues that all the evidence points to the conclusion that only a minority of Germans were active Nazis and that the rest were helpless victims, trapped by the Nazis. The conclusion of the third chapter in this analysis of Nazism, entitled "The Pattern of Tyranny", had perhaps best be given in the author's words:

> Fascism and naziism are not exclusively Italian or German phenomena but are born wherever historical factors permit the birth of illegitimate force. In the light of the above analysis, we cannot consider fascism or naziism *primarily* a product of Italian or German history, but a reaction toward an unsatisfactory condition of democracy.... None of these things, however, relates to the essence of the matter. That essence is and remains the age-old spirit of tyranny. And if we want to guard against it, we must deal with causes rather than with symptoms. The real cause for the rise of tyranny is the weakness of democracy, so let us strengthen the political health of democracy wherever we can; for if the body politic is healthy enough, it can resist the germs of infection, from whatever source they may spring (p. 150).

In the remaining chapters (vii-ix), Hermens addresses himself to the problems of peace. He takes up in turn (1) military government, (2) disarmament, (3) partition, (4) economic policy, (5) reparations. He pleads for a Christian peace conceived in terms of the moral teachings of St. Thomas Aquinas. Would that the world were run that way! In the light of récent developments, his is indeed a voice crying in the wilderness. It will bring foam to the

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mouths of the hate-mongering "liberals" who have lately come to dominate the American intelligentsia. Anticipating their cries of indignation, a true liberal, Robert MacIver, provides the volume with a preface of profound wisdom: "Victory is opportunity, the most momentous opportunity we shall ever know. The brightening prospects of victory urge upon us the crucial alternatives of peacemaking. . . . The peace settlement will set for generations to come, in ways far beyond our wisest planning, the course of history. . . . Mr. Hermens writes with insight as well as with knowledge. No book could be more timely; none is more needed at this hour." In this judgment we concur.

CARL J. FRIEDRICH

HARVARD UNIVERSITY

Beyond Victory. By JERRY VOORHIS. New York and Toronto, Farrar & Rinehart, 1944.—xiv, 240 pp. $2.50.

Representative Voorhis has done the public a real service by sketching out in readable fashion the case which he and like-minded colleagues will be championing on the floor of the House in future months regarding the content of the peace and the policies, domestic and international alike, which should guide the post-war world. The case is for a "middle way" which points neither to the right nor to the left; and that leaves a maximum of Jeffersonian democracy while still promising full employment and permanent international peace; the case is made as a tract written at white heat which requires the minimum of analysis to support its principal contentions.

The tractarian sections are written in the best forensic tradition. The causes of the war and the unsettled state of the world that provided the warmakers with an adequate social-psychological milieu for pursuit of their nefarious ends are found in "great lies", "fear", "religion-of-the-state", "possessions" or "the struggle to gain and hold imperial possessions", "unemployment, hunger and want", and the doctrines of the "master race". The first five and the ninth chapters are devoted to these topics seriatim, and they contain about as good a popular homily in the more passionate manner on these topics as has appeared thus far in print. The last chapter on "Many Worlds" would be called by GI Joe "pure corn". It is too bad that it was added, for great splashing teardrops at the conclusion of such an ably executed sermon detracts from the impression of obvious sincerity in the message, and Representative Voorhis is placed in the somewhat ambiguous position thereby of suffering on the cross for all mankind

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while wringing his hands because he fears that such suffering in declamation will be without avail.

Analysis is confined to three chapters dealing primarily with monopolies and the gold standard. Chapter vii on "Monopolies and Cartels" contains one of the best popular summaries on this complicated subject in print. What it misses, however, is the fact that the case against cartels is not the case for "free enterprise", and one could wish here that for once the amateur would not attempt to summarize the facts he does not understand simply because his faith is strong. This feeling is hardened into certainty by the discovery that "fiscal measures" are to provide the "key to full employment with free enterprise" (p. 103). Here we read that "monopoly and a chronic shortage of buying power are the two basic causes of unemployment (p. 109); that there is a permanent shortage of "purchasing power" to the amount of the difference between gross and net national income" (p. 110); and that the cure is (1) to "free" the creation of deposit currency from "debt" and the "fear of debt" by providing for direct government issue without the intermediation of banks, and (2) for government to "create" without "any increase in interest-bearing national debt an amount of brand new purchasing power equal to five per cent of the total amount of money previously in existence" (p. 108). The inspiration must be Major Douglas; the result is the layman's inability to avoid crackpot solutions when entangled in a problem he has not even properly posed, let alone solved.

Yet, despite these obvious flaws in *Beyond Victory,* the book contains a great deal of homely common sense: international isolationism is past; peace is indivisible and the home front cannot be separated from the front abroad; unemployment is the major problem, and a solution must be found for it if the world is not to be plunged into another enveloping slaughter of the innocents. Perhaps this is the best way to get such a "message" across. Yet it is unfortunate that Representative Voorhis should not see, after such rapid survey of the destruction of these calamitous years, that what he is proposing is not, to be true, a return to "business as usual" as we saw it before the war, but, even worse, a return to "business as usual" of several decades earlier. This is not only not to offer a solution; it is merely a confused counsel of despair. Surely even those who would be St. Paul to their times must first accomplish the painful and laborious task of correct diagnosis before preaching therapy for the evils of their Antiochs.

ROBERT A. BRADY

UNIVERSITY OF CALIFORNIA

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The Nazi Economic System: Germany's Mobilization for War. By OTTO NATHAN with the collaboration of MILTON FRIED. Durham, Duke University Press, 1944.—ix, 378 pp. $4.00.

Totalitarian régimes of any color have a well-established reputation for keeping objective information about themselves at a very minimum, and the Nazis are no exception. In spite of the fact that they have never spared press and speech to vaunt their achievements, they have really revealed very little of the true state of affairs in Germany. The preparation for aggression which they began in 1933 naturally required secrecy. The new totalitarian propaganda required confusion of issues and misinformation on a mass scale. The Nazis were equal to the occasion, and the information which they did give away was all too often clothed in that peculiar brand of gobbledy-gook which made its appearance in popular and learned German after 1933. Thus, the serious scholar who tries to penetrate to the objective facts, relationships and developments of the Nazi system soon discovers that he is faced with a job which may involve more than one nightmare.

Dr. Nathan is to be congratulated for having made this study in the face of such difficulties. His volume is a first guide to the intricacies of the Nazi economic machine, and he makes no higher claims for it. Using the available basic source material in the hundreds of decrees and administrative rulings, the official statements and scant statistics, he has sketched from them the historical development of the institutions which the Nazis created for their totalitarian economy, the unlimited scope of their authority, and their accomplishments. It is not always a clear picture. The German war economy was not developed from ready-made blueprints, and the Nazis were no more able than we were to avoid duplication of agencies, reorganizations and inter-organization conflicts.

Students of German developments have long been familiar with the unique feature of the Nazi economy which lies in the retention of the old capitalist institutions of private property and production for profit while the whole economic machine is completely harnessed by the state for its own ends; every vestige of laissez faire and economic freedom is eliminated. What Dr. Nathan does is to show in detail how this has been done. In industry every enterprise was forced into a comprehensive organization which became an arm of the state. Cartels lost their old independence and were made practically into government agencies. Agriculture was systematically organized, and no peasant, no dairy, no slaughterhouse remained

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in any respect beyond the control of the régime. Money and banking were completely regulated to direct capital where the government wanted it to go. Raw materials, imports, production were channeled according to plan. Labor ceased to be a strong independent human element in the economy and became simply a factor of production under the same control and regulation as other factors. Since all this removed the foundations from the pre-1933 price mechanism, total price regulation had to be instituted and promptly became another positive tool for advancing the aims of the military economy. One of the best chapters in Dr. Nathan's book deals with this phase of the Nazi system, which was highly successful. There is also an excellent study on public revenue, which leads to interesting comparisons between our own and the Nazi method of financing the war. In a final chapter the author attempts an examination, on the basis of admittedly limited statistics, of the effect of the military economy on civilian consumption. He finds it possible to conclude that in spite of the tremendous armament program the masses of the German people had by 1938 reached an income and consumption level which far surpassed that of 1932 and was practically equivalent to that of 1929; this would seem to be the Nazi counterpart of our own "miracle of production".

As Dr. Nathan himself points out, he could not deal with such all-important questions as inter-agency relationships and the real interactions of official agencies, the party, and economic interests and groups; there is no information on these subjects now, and we know nothing about where policies actually originated, how they were created, and how they were influenced. Bearing these unavoidable limitations in mind, we must say that the present book is a useful contribution in what is still a vast field for research.

ALEXANDER F. KIEFER

FLUSHING, N. Y.

Prelude to Silence: The End of the German Republic. By ARNOLD BRECHT. New York, Oxford University Press, 1944.—xxi, 156 pp. $2.00.

Dr. Brecht's terse little book is both the personal record of a high civil servant concerned, under the Weimar Republic, with German juridical problems, and a profession of faith in the German liberal tradition. It attempts to analyze the resistance Hitler encountered in Germany and to offer some explanation of why that resistance failed.

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The analysis is of no great value; the explanation is plausible and significant.

Thus it is all very well to say, as Brecht does, that during the first thirty years of the twentieth century the German voter rolled up impressive majorities for "democratic" government. But unfortunately the dynamism of anti-democrats became, after 1918, novel and dangerous, while their opponents were sapped of constructive enthusiasm. It was a case of hypertension and low blood pressure. Notably there were periods of normalcy, as for instance that between 1925 and 1929, and these indicate that the German trouble was in large measure economic and psychical. Brecht, primarily a lawyer, is too little concerned with such matters.

On the other hand, the reviewer believes Brecht is correct in contending that the tide of revolution—if resentment ever really ends in revolution—might have been halted. The democratic spirit of the Weimar Constitution was snuffed out by privation and disillusionment, so that the letter became more and more important. Serious flaws were revealed. According to Brecht, the most important of these were: the system of proportional representation, the method of presidential election, the absence of a definition of presidential powers, and the failure to coördinate the government of the Reich with the governments of the several states. Prior to the fall of Bruening, it was possible to discuss remedies for these weaknesses, and some progress was actually made. After Bruening resigned, the German government still sought to oppose Nazism, but it broke off abruptly all efforts to bring about a democratic revision of the Constitution and instead used every flaw in the document in order to strengthen the presidential powers. Hitler's "legality" could not therefore be any longer questioned. He may be said to have abolished the Weimar system by actions which it did not forbid.

Others—Hermens, Kraus and Bergstraesser in particular—have dealt with these matters, but Brecht has placed the events in their juridical setting. His synthesis is therefore of genuine interest. He is also able to throw new light on obscure and often misunderstood happenings. Thus his discussion of the struggle for Prussia makes it evident that the issue had to be legality, since any attempt by the democratic authorities to oppose Papen or Goering by force would have involved a flagrant violation of that constitutional principle which alone made their case valid. The Prussian incident also revealed the full import of the failure to create a viable central government. While the Reich was shorn of police power, the President's

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command of the army gave that body a *de facto* significance wholly out of keeping with the desires of the electorate. Once grasp the fact that the Reichstag and its Chancellor had no sanction other than presidential toleration, and the reasons why they could offer no resistance are clear. Brecht touches on many other matters of kindred importance.

To say that the Weimar Republic failed by reason of bad legal planning is to claim too much. Nevertheless the constitutional factors loom large in any satisfactory estimate of the Nazi rise to power. One hopes that Brecht may some time offer a more detailed commentary on the issues he has raised.

GEORGE N. SHUSTER

HUNTER COLLEGE

Postwar Monetary Plans and Other Essays. By JOHN H. WILLIAMS. New York, Alfred A. Knopf, 1944.—xxxii, 297, viii pp. $2.50.

This volume of essays by Dr. Williams brings together one new and eleven other papers, most of which originally appeared in *Foreign Affairs* and the *Proceedings* of the American Economic Association. The book is divided into three parts: I, Postwar Monetary Plans; II, Domestic Fiscal and Monetary Policy; III, Earlier Essays on International Trade and Monetary Problems. In addition there are appendices of the Keynes Plan, the White Plan, and the Joint Statement of April 1944 by British and American Experts for an International Monetary Fund. Unfortunately the book was published before the Bretton Woods Conference and does not contain Dr. Williams' more recent evaluation of the further revised plan, which he discusses in the October 1944 issue of *Foreign Affairs*.

The essentials of Dr. Williams' position concerning post-war monetary plans are: (1) the transition period from war to peace will differ fundamentally from the longer run period and calls for different institutional arrangements; (2) a "key-countries" plan which would undertake less would accomplish more than a plan which attempts to stabilize simultaneously the currencies of many nations; (3) success of any plan for international monetary stabilization depends mainly upon high production and income in the major nations.

Provision at Bretton Woods for a Bank of Reconstruction and Development in addition to the International Monetary Fund is in line with the first point. Dr. Williams recommends immediate adoption of the Bank, but feels that acceptance of the Monetary Fund at this

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time would be premature. He has made a contribution in emphasizing the difference between the requirements of the transition and post-transition periods. Nevertheless there is much to be said for deciding now the principles toward which world monetary organization is working. Dr. Williams' recommendation for postponement is conditioned by the hope that with more time for deliberation the experts will move even closer than they already have toward a "key-currencies" plan. Despite the experts' belated recognition of the key-currencies principle, Dr. Williams still feels the present arrangement would result in a shortage of dollars.

Though part of his main thesis is that domestic stability is prerequisite to international stability, Dr. Williams confesses he has little to contribute to this problem. Part II on "Domestic Fiscal and Monetary Policy" contains numerous insights on the critical aspects but contributes little to the constructive side of domestic stability. Dr. Williams is no enthusiast for deficit spending, and he rejects the "mature capitalism" thesis. He seems to imply that large-scale unemployment is the price of technological progress (p. 80). Permanent deficit spending undertaken to remedy secular unemployment "would either eventually break down or would entirely transform our democratic, private capitalistic system" (p. 83). He suggests a permanent relief organization within a balanced budget, shortening of the work week, more flexible prices and costs, and greater mobility of the factors of production. As may be judged from these rather conservative suggestions, Dr. Williams does not associate the recent tendency toward chronic, mass unemployment with a fundamental crisis in contemporary American capitalism.

The "earlier essays" in Part III, dealing mainly with the theory of international trade and the gold standard, are suggestive but contain no startling innovations. An important conclusion is that the "classical" theory of international trade neglected the needs of young countries.

The highlight of the volume is the section on post-war monetary plans. During the approaching period of public and Congressional debate on these issues, scholars and educated laymen will welcome this lucid exposition of the esoteric entanglements of international finance by one who, as bank official and professor of political economy, enjoys the rare vantage point of intimacy with practical affairs plus closeness to theoretical developments.

DUDLEY DILLARD

UNIVERSITY OF MARYLAND

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How to Tell Progress from Reaction: Roads to Industrial Democracy. By MANYA GORDON. New York, E. P. Dutton and Co., 1944.—320 pp. $3.00.

Radicals when disillusioned often become conservatives. Not so Manya Gordon, who in private life is Mrs. Simeon Strunsky. Since college days she has been a Marxian socialist but is now convinced that complete government ownership and the dictatorship of the proletariat inevitably lead to the degradation and enslavement of the wage-earners. She has concluded that "in order to safeguard our democratic way of life the private employer must be retained as the buffer state between the absolute power of government and the wage earners."

But Manya Gordon has not changed her objectives one iota. To her the end-all in social planning is still the welfare of the proletariat. She is as convinced as ever that "labor" must be in the seats of power and that "it can and . . . will have both security and freedom". As measures to this end, she advocates a guarantee of full employment, a federal subsistence wage, improved social security legislation, low-income housing, a national health program, measures for wider educational opportunities, and an understanding and sympathetic presentation of labor problems in all our educational programs, particularly at the college level.

Completely disillusioned about government ownership of all means of production, Manya Gordon sees the attainment of these objectives in the trade-union and coöperative movements. She believes in the organization of all workers in trade unions free from all governmental control. She opposes all restriction of strikes, but discusses the rôle of the trade unions principally in terms of political influence and control of purchasing power. The coöperative movement is not so well developed in this country, but is growing in a most gratifying manner. "Cooperation is not only the most peaceful agent in the regulation of prices, it is also an object lesson in the correct method of production and consumption for use rather than profit."

The rôle of government in bringing about the reforms necessary to insure labor "both security and freedom" is only vaguely discussed, but it is assumed that the trade unions and the coöperatives will control the government and will be able to effectuate their purposes through governmental action, if necessary, but without having to endure "the bureaucratic twist", which Lenin regarded as an essential part of "workers' government".

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The case against complete government ownership on the Russian model and for the program advocated by the author is made on evidence which can be summarized as follows. The *Communist Manifesto* should not be regarded as an utterance of the Oracle laying down the course socialists must follow under all circumstances. Marx himself recognized that its application depends upon "the historic conditions which exist at the time." Conditions in the United States in 1944 are very different from those prevailing in western Europe in 1848. It is to experience, rather than to the writings of Marx and Lenin, that the believers in industrial democracy should turn to chart their course at this time. Government ownership, alike in the United States, England and Sweden, has been accompanied by the refusal of government to deal with trade unions, prohibition of strikes, unsatisfactory wages and working conditions, and lack of any genuine security. On the other hand the wage-earners in all three of these democratic countries have made great advances under regulated private enterprise toward security and without sacrifice of freedom. These advances have been particularly rapid during the nineteen thirties, despite the great depression. In contrast, the economic condition of the wage-earners in the Soviet Union has deteriorated since the "workers' government with a bureaucratic twist" was established. In part, concern about the danger of foreign attack was responsible for the disappointing record made by the Communists. "Fear of invasion was not, however, the only reason. The driving force was the newborn employer psychology—the desire to see results no matter at what cost." Some credit is given the Soviet régime for the Russian record in the war, but it holds no hope for the future. "Between the two World Wars the eyes of all men were on Russia. In the post-war era the leadership in social reform and labor legislation will go to England and, in a lesser degree, to the United States."

To the reviewer, who has never shared the author's faith in socialism although agreeing with her on many of the specific reforms which she advocates, neither the program presented nor the evidence adduced in its support is convincing. The author overstates the disadvantages, to the employees, of government ownership in the United States and other democratic countries. Contrary to the impression left in this book, the trade unions have attained very considerable importance in government enterprises. Wages and working conditions are at least up to the average of private industry; there is greater security of tenure, and the United States Civil Service Retirement system is much more liberal than the general old-age insur-

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ance and assistance programs. Conversely, the gains made by labor employed in private industry are presented in too rosy colors. It is at least doubtful whether all industry now recognizes that high wages are "an economic imperative" and accepts collective bargaining. The reviewer shares the author's suspicions of the Communist claims about the great advances in Russia, but feels that she does not give adequate credit for the contribution the Soviet Union made to civilization in helping to down the Nazis. To him the restriction of personal freedom, rather than the failure to produce more consumer goods, is the really serious shortcoming of communism as it has developed in Russia.

A more fundamental weakness is the author's failure to appreciate that terms like "labor", "capital", "capitalism", "socialism", "private enterprise" and "government ownership" have an uncertain and varying meaning. She emphasizes that technological conditions and the lot of the wage-earners have changed greatly since the *Communist Manifesto*. But she does not realize that "property" is a bundle of rights and duties constantly being added to and subtracted from by law and that in many respects the old sharp distinction between private enterprise and government ownership has faded.

Most shocking to the reviewer is the author's attitude toward government. Completely absent in this book is the traditional American concept of a "government of the people, for the people, and by the people." In its place there is a dread of bureaucracy, without any realization that the reforms advocated inevitably will result in a larger government personnel. Also completely lacking is all appreciation of the fact that the corporations, the trade unions and the coöperatives are themselves a part of present-day government and that all of them face the same problem of making a bureaucracy, which necessarily must perform most of their function, responsive to democratic controls.

While the reviewer, thus, finds much in this book with which he does not agree, he recognizes it as an honest statement of the views of a disillusioned radical who has preserved her ideals. That there are many who will agree with her is certain, and among them quite a number of the intellectual leaders of the country. As an antidote for the false notions that the United States has made less progress than Russia and that the thirties were for this country a period of retrogression, this book has great values indeed.

EDWIN E. WITTE

UNIVERSITY OF WISCONSIN.

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The Theory of Economic Progress. By C. E. AYRES. Chapel Hill, University of North Carolina Press, 1944.—ix, 317 pp. $3.00.

Professor Ayres endeavors to substantiate two theses. Economists have done and are doing nothing constructive, because they are obsessed with analysis of the price system, which has nothing to do with value and values, and because they are still dominated by capitalistic ideology and consequently attribute economic progress to business and finance when as a matter of fact it is entirely the result of science and technology.

The purpose of this book, he says, is to set forth a new way of economic thinking about economic problems. Actually the only economic problem he considers, and that not till toward the end of the book, is the maintenance of full production and employment through more equal distribution of money income and provision of adequate mass purchasing power. His discussion of this problem—an economy of abundance—while superficial, can hardly be said to be entirely new. This over-all problem is now the chief concern, not only of most economists but, facing the post-war world, of business and the government. "The old ways of thinking must be abandoned, price analysis and all." Ayres, in his truculent impatience with any thinking that does not break violently with "classical" patterns, is himself unduly obsessed with the sins of price analysis. Since it is practically inconceivable that any complex economy, "capitalistic" or collectivist, can operate without money and prices, it would seem that continued research into the working of the price system in relation to production and distribution is essential. There is little evidence in this book that Ayres appreciates the fundamental function of price analysis. He looks at it only externally and his charges are so general and verbal that he will probably have little influence in turning economists from the error of their ways.

Philosophically, the book is distinctly doctrinaire. "The" theory of economic progress derives from John Dewey's instrumentalism, which in one fundamental respect is misinterpreted, and from Veblen's distinction between technological and "ceremonial" culture. Admittedly, the term, ceremonial, is unsatisfactory, but under it goes everything, including custom, government, property and other institutions, and all beliefs and ideas, which cannot be shown to have been shaped by the industrial revolution. Here, as elsewhere, the author's habit of sweeping statement, and of seeing everything as either white or black, probably causes him to hold positions which he does not really hold.

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He has much trouble with the concept, institution, which he could have avoided had he adopted Commons' idea that an institution is "collective control of individual behavior." Unless obviously based on science and technology, institutions, in Ayres's view, are ceremonial, and that means they are rationalizations for the protection of vested interests and the maintenance of status. Thus they are inimical to progress. They represent traditional values, which are out of step with the advance of material technology, in which Ayres finds the one and only criterion of economic progress. These static, obstructive, ceremonial values are determined by the mores, the mores are determined by "immemorial tradition", and immemorial tradition "just grows". This is an easy way out, but it is hardly consistent with philosophical instrumentalism.

The discussion of value is devious and confused. One gathers that Ayres thinks the economists should give thought to values in the philosophical or ethical sense, and one can heartily agree with that thought. Values, he holds, have derived from the mores, but the mores are relative, and there is consequently no general standard of value. Hence economic value, or price, has no "meaning", and we are compelled to find a way out of the impasse by setting up a general criterion of value. This Ayres finds in the technological process itself. Both truth and value mean continuity, and "that is the sole meaning of value." Value is the relation of an act or judgment to the "whole life-process" (whatever that means). Economic value consists in keeping the machines running.

All this is transcendentalism with a vengeance, if anything can be made of it. We exist for the technological process, rather than the reverse. Production is not for consumption. Holding to a social organism view, Ayres refuses to make distinction between the individual and society, thus confusing the psychology of growth with a theory of value. He refuses to admit (thus departing from Dewey) what he calls the "metaphysical", and what the reviewer would call the ethical, ultimacy of the individual. Thus the individual is not an end. Ayres's philosophy could lead as well to fascism and a power system as to liberty and democracy. In general, he dogmatically refuses to distinguish between means and ends. There is no end or purpose to the "life-process" save the abstraction, continuity.

At least this would be true did Ayres stick to his guns. But eventually he does not. Unconsciously, he admits through the side door what he has kicked out the front. After all, the technological process has an "end". With the removal of hampering institutional restrictions, especially the profit motive and accumulation of finance

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capital, we shall attain an economy of plenty. If this means anything, it means that the individual and consumption are restored as the *raison d'être* of the whole instrumental productive process.

One can but wonder to whom this book is addressed. The lay reader is unlikely to make much out of it, not because it is, as the author intimates, "closely" reasoned", for it is not. It is diffuse, goes off on digressions just when the reader thinks the author is about to make his point clearly, and abounds in half-truths, undocumented charges, straw men, and distorted logic of the "have-you-stopped-beating-your-wife" variety. If addressed to economists, the style is thus singularly ill advised.

There is crying need for the reorientation of economics and economics teaching with the general theory of value and values, but it can hardly be said that Ayres has approached this difficult task with proper humility of spirit or that he has greatly contributed to the purpose he has in mind.

A. B. WOLFE

OHIO STATE UNIVERSITY

America Unlimited. By ERIC JOHNSTON. Garden City, Doubleday, Doran and Co., Inc., 1944.—ix, 254 pp. $2.50.

This is indeed an interesting and at some points a brilliant little book. The author's creed is survival of small business, fair play on the part of large business, support of the capitalist system by workers and employers, both of whom are in his mind capitalists, as little government as possible, but a recognition of the need of more government with changing conditions. Mr. Johnston is as critical of large business that has tried to impose monopolistic practices on the community or of large business asking favors of government as he is of the collectivists who have tried to undermine the system of private enterprise. He marks a great advance over the hard-boiled business man, who in the early thirties could see nothing good in New Deal economics or in the attempt of the government to step in where private business enterprise had failed.

He does not cherish the Russian system of collectivism nor the form of super-statism which Hitler has created, and is almost as critical of the modern British tendency to favor cartels, domestic monopolies at home and numerous interventions on the part of the government. As for the British, in his view they are disposed to seek security and are prepared to renounce the gains of free and unfettered competition.

At times the reviewer has an uneasy feeling that Mr. Johnston's

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enthusiasm for the system which he loves allows him to be carried too far. For example, he gives business too much credit for the achievements since 1941. No one would deny that they have been tremendous and business deserves a large share of the credit. It must be admitted, however, that the government played a very large part both in evolving plans and in selecting war personnel. At another point the author tells us that in a socialist society prices will be twice or even four times as high as elsewhere, because the socialist society will put on or hire a very large bureaucracy and therefore increase costs unduly. There is no doubt in his mind but that in every case the government will do the job less effectively than private enterprise. Yet many of us will point to the excellent record of the TVA; and one can find many other instances where government seems to do the better job.

Mr. Johnston's appraisal of New Dealism is on the whole very generous, coming as it does from one of the leading business men of the country. He sees much in it that ought to be saved: the S.E.C., social security, help for the farmers, and collective bargaining. What he does not like is the spirit of opposition to private enterprise and also the defeatism implicit in make-work programs. He distinguishes between those New Dealers who were anxious to save private enterprise and those members of the New Deal hierarchy who would give it a final push in the direction of socialism.

On some points of economics this reviewer would disagree. Mr. Johnston, for example, presents a very reasonable discussion of the tax problem confronting private enterprise. Risk-taking does not pay; taxes on corporations are too heavy; there is a widespread disposition to punish those who receive large incomes. He makes the reasonable proposal that in the first years of operation new business might be given special tax privileges. Yet in suggesting that corporate taxation should be removed, he does not tell us where the necessary revenues are to be derived. The alternative would be very heavy taxation on personal incomes or (and) on excises. In fact, the reviewer has not been as much impressed as others have by the very heavy taxation of corporations. Clearly corporate tax rates should be reduced after the war; but that corporate business enterprise has held its own in the last generation, despite the supposedly heavy and double taxation of corporations, suggests either that corporate taxation has not been too heavy in relation to noncorporate taxation, or that corporations obtain other advantages which more than offset the extra tax burden. They may, in fact, succeed remarkably well in making the consumer pay.

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At another point Mr. Johnston attacks the stagnation theories. He sees no need for stagnation or defeatism in future American economic life. In fact, he points to the large capacities, to the large supplies of raw materials, the increased numbers of highly skilled workers, and the remarkable technological advances as evidence of a very promising future. Like many other business men who want private enterprise to resume its progress of the last hundred years, Mr. Johnston is impressed by the great possibilities of new inventions, new ways of turning out old products, technological changes which will bring down costs, and all kinds of new products and services: radios, plastics, freezing units, air travel. These should provide markets, employment, and a high and sustained standard of luxury. These are the usual replies to the stagnationists. Yet this reviewer has not been impressed even by the most recent estimates of the amounts of employment that will result in the post-war years from the backlog of demand or the introduction of new products. Compared to the $90 billion we are spending for war, and the continued gains in productivity, these do not seem to be of the required magnitude. Mr. Johnston himself points to the fact that the automobile put many people out of jobs and adds, quite properly, that the automobile in the end added many jobs. What he does not tell us is why there has been a serious unemployment problem despite the fact that many new consumer goods seem to have contributed toward an increase in the total amount of employment. The point is that in modern economic life with the development of labor-saving improvements it is possible to produce a given quantity of goods with much less labor. The net result, therefore, is that total demand for labor may very well decline.

Mr. Johnston dismisses the stagnation theory by saying that in the last fifty or sixty years there have been tremendous strides in our modern system of capitalism, despite the fact that the percentage rate of population has tended to decline. The point is, however, that the modern stagnationists talk, not in terms of percentage change in population, but in terms of a declining absolute increase over recent periods. This reviewer does not believe that the stagnationists have necessarily proved their point, but certainly the theory has great appeal as a working hypothesis. Mr. Johnston, on the other hand, has certainly not disproved the stagnation theory.

Despite these reservations, this book is recommended to economists, business men and all who would ponder over post-war economic problems.

SEYMOUR E. HARRIS

HARVARD UNIVERSITY

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The Settlement of Industrial Disputes. By KURT BRAUN. Philadelphia, The Blakiston Company, 1944.—xii, 306 pp. $3.50.

This book was completed before the author joined the staff of the Brookings Institution and is not an Institution study. Mr. Braun has drawn on his experiences as industrial meditator, arbitrator, attorney and lecturer in bringing together an extensive summary of the existing methods and facilities for the settlement of industrial disputes. He applies himself to the question of how differences between employers and employees "may be settled without disturbances of the national economy and the domestic peace, and without damage to the parties beyond that inevitable in settling disputes involving opposing rights and interests." Most of the book is devoted to descriptive analysis of agencies of mediation, conciliation and arbitration. These are classified, their interrelationships discussed, and in some cases their detailed operations traced. Only American and German settlement agencies are treated.

Mr. Braun is very clear on where the responsibilities lie. The employers' and employees' organizations should settle their differences by sincere negotiation. This failing, they should proceed through some form of mediation or conciliation to arbitration. The part of government is to provide machinery to assist employers and employees in these settlement endeavors and to "induce" them to use available facilities. The author holds that the provision of such means by the government is "now considered as much a duty of governments. . . as to provide courts of justice for the adjustment of legal controversies between all types of parties." Governmentally sponsored conciliation and arbitration facilities have the dual advantages of (usually) admitted neutrality and knowledge of governmental policies in the economic sphere.

It is not entirely clear what pressures the author feels should be utilized by the government to "induce" the parties to submit their disputes to settlement by neutral and competent agencies. At least for the immediate post-war period he considers inevitable "emergency measures identical with, or similar to, the methods employed during the war."

Some readers of this book doubtless will be disappointed in its discussions of the "principles" of mediation, conciliation and arbitration. These do not strike very deeply since they are chiefly descriptive of existing agencies and their procedures. The few "principles" actually discussed are pretty well known to persons having had even slight contact with the settlement of industrial

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disputes. Another shortcoming of the study is its failure to refer in any manner to the interesting and valuable experiences of Australasian governments in the settlement of disputes.

Despite these weaknesses, this survey of an immensely important segment of our economy is most worth while. Readers hitherto unacquainted with this field will gain a comprehensive idea of the extent of the settlement facilities already available, how they work, what problems they face, and what difficulties they have encountered. Such stock taking is of important assistance in developing our approach to this problem anew in the post-war world.

WILLIAM N. LOUCKS

UNIVERSITY OF PENNSYLVANIA

Production, Jobs and Taxes. By HAROLD M. GROVES. New York and London, McGraw-Hill Book Co., Inc., 1944.—xv, 116 pp. $1.25.

In his study for the Research Committee of the Committee for Economic Development Professor Groves attacks the difficult problem of reforming the federal tax system after the war in a manner conducive to high levels of production and employment. Taxes upon business are to be "deemphasized" and relatively more reliance is to be placed upon the personal income tax.

Business is to be freed from the cumbersome and inequitable excess profits tax, which, Professor Groves believes, could not be adapted effectively to the regulation of monopoly in peacetime and would penalize risk-taking and efficiency in production. However, he would continue the unused excess profits credit carry-back after the war. The annoying capital stock tax and the related declared value excess profits tax he would remove.

If he does not altogether convince his readers of the feasibility of his suggestions to eliminate the duplicate taxation of the corporate income paid out in dividends, the author at least struggles valiantly with this highly complex problem. Corporations are to be taxed upon their net income, but the shareholders are to be credited with the taxes paid by corporations upon (a) the income going out in dividends and (b) the income reinvested which later results in a realized taxable gain for the shareholder. In effect, the corporate tax would be confined to income not paid out as dividends and to income which did not subsequently appear as a realized capital gain of a shareholder. It should be feasible to credit the tax on dividends to the individual recipients, as English experience indicates, but it is

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not clear that it would be practicable, in taxing an individual on his realized capital gains, to give him credit for income taxes paid by the corporation. Further steps in the elimination of duplicate taxation call for applying the partnership method of taxation to personal holding companies, corporations improperly accumulating a surplus, and perhaps to other corporations at their option, and for the taxation of small new enterprises on their undistributed earnings by taxing the shareholders on the capital gains realized from the retention of corporate net income, if the complexities involved can be overcome.

The major post-war revenue would be the progressive personal income tax, with substantial rate reductions in the top income brackets and light cuts in the lower brackets. A sales tax, however, would not be adopted and most of the excises would be swept away, with particular advantages to the smaller incomes. In the development of the personal income tax Professor Groves would allow fully for capital gains and losses and would treat them like other income and deductions, assuming that his proposal for the optional averaging of income over a period of years were adopted and became available for those who would otherwise be taxed unfairly. Whether the taxpayers would take kindly to the complications of averaging is, of course, uncertain. A more fundamental problem is that of securing the necessary political support for removing much of the tax load from business and at the same time obtaining popular consent for continuing the heavy personal income taxes on the lower incomes. To accomplish this major objective it would appear to be necessary to convince the public that such a reform would promise such high production and employment that the masses would have a greater purchasing power, after paying their heavy income taxes, than they would enjoy if the owners of corporations were taxed more heavily and the personal taxes on the lower incomes were slashed drastically.

Professor Groves has recommended other reforms in his tax program, including tax reductions for small new manufacturing enterprises, more latitude in the determination of depreciation, the abandonment of tax exemption of governmental securities, and the integration of the death and gift taxes. Small growing corporations would benefit particularly from the proposal to extend the carry-forward of net losses to six years.

Professor Groves's little book is challenging and is well worth reading. Many of his conclusions were accepted for adoption in the tax program of the Research Committee of the Committee for Economic Development. On a subject so controversial and so complex

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as post-war federal taxation, complete agreement is not to be expected among tax students, and the reader may find himself differing with the author at numerous points. Professor Groves, however, has rendered a valuable service in stating his conclusions and the arguments for them, and the reader will find that the volume will help him clarify much of his thinking on needed tax reforms.

ALFRED G. BUEHLER

UNIVERSITY OF PENNSYLVANIA

The Great Transformation. By KARL POLANYI. New York and Toronto, Farrar & Rinehart, 1944.—xiv, 305 pp. $3.00.

The theme of this remarkable book is compactly stated at the beginning. "Nineteenth century civilization rested on four institutions. The first was the balance-of-power system which for a century prevented the occurrence of any long and devastating war between the Great Powers. The second was the international gold standard which symbolized a unique organization of world economy. The third was the self-regulating market which produced an unheard-of material welfare. The fourth was the liberal state. . . . Our thesis is that the idea of a self adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society" (p. 3).

The greater part of the text is given to the analysis of the origin and character of the self-regulating market and its related monetary system, the automatic gold standard. An unusually penetrating analysis of the unreformed poor law shows that the consequences of the concept of a free market for labor were not accepted at that time. Later, when reforms seemed to presage the full acceptance of liberal principles, a "collectivist" trend began to emerge in various statutes which obstructed the application of the laissez faire philosophy over an increasingly important field. The pragmatic attempts to evade the undesirable consequences of unregulated economic activity developed a substantial body of regulatory and protective legislation, commonly stigmatized by liberals as the manifestation of "impatience, greed, and short-sightedness . . . .The countermove against economic liberalism and laissez-faire possessed all the unmistakable characteristics of a spontaneous reaction" to the perils "inherent in the utopian principle of a self-regulating market" (pp. 149, 150).

The institutionalist position suggested in some passages is clearly subject to an important qualification. There were tendencies toward the development of a self-regulating market, but these tendencies were

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never allowed to dominate social organization. The society conceived by the classical economists never really came into existence. The assumption that full freedom of competition was established was illusory. The market was not self-regulating, nor was the gold standard automatic, or international. The liberal position was, thus, unsound both as an ultimate basis of social policy and as a basis for the interpretation of the historical record. Nineteenth-century societies were in fact moving toward goals that were profoundly different from the objectives conceived by the naïve liberalism of the period. The development of the welfare state, which was the true aim of the liberal philosophy, required positive governmental activity and much self-conscious individual action. No magic of market structure could achieve the errorless objectivity that was presumed to be the outstanding merit of the free market.

The complacency of the Victorian liberals has not been effectively challenged in the past: least of all, the confident historical interpretation of the period. Dr. Polanyi subjects the record of the century to a searching critical analysis that destroys every vital position of the older Victorian interpretation. Some chapters will be difficult reading, some details may require revision, but the general thesis is decisively and effectively presented. The critical revision of economics and of political theory is shown to be no less significant for the understanding of history than for the definition of current political and social aims.

ABBOTT PAYSON USHER

HARVARD UNIVERSITY

The Indian Problem: Report on the Constitutional Problem in India. By R. COUPLAND. New York, London, Bombay, Oxford University Press, 1944.—160, 344, 207 pp. $5.00.

The survey of the constitutional problem in India which Professor Coupland submitted as a report to the Warden and Fellows of Nuffield College, Oxford, consisted of three parts, which were originally published in England separately, the first (*The Indian Problem, 1833-1935*) in 1942 and the second (*Indian Politics, 1936-1942*) and third (*The Future of India*) in 1943. The present volume includes the entire report, but the three parts are separately paged and indexed, and to each are added a brief and very convenient summary and a group of appendices containing mainly documentary materials, some of them very important and not easily to be found elsewhere.

In the first part the author describes the constitutional changes in

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British India from the Charter Act of 1833 to the passing of the Government of India Act of 1935. He shows that the idea of applying to India the system of responsible government existing in the self-governing British colonies, the conception of Dominion Status as the goal of India's constitutional development, was of Indian, not British, provenience. It was expressed by Mr. Gokhale in his address as President of the Indian National Congress in 1905 and by the Congress in a resolution adopted in the following year, in which it was declared: "This Congress is of opinion that the system of government obtaining in the self-governing British Colonies should be extended to India." It was not till 1917 that "the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire" was officially declared to be the policy of the British government, and it was not till 1929 that it was authoritatively stated that the government regarded it as implicit in the declaration of 1917 that "the natural issue of India's constitutional progress as there contemplated" was "the attainment of Dominion Status." The Hindu-Moslem cleavage, to which a chapter is devoted and which keeps recurring as a leitmotiv throughout the report, is viewed as the principal obstacle to the realization of full Indian self-government and the basic cause of the continuance of British rule, but the thesis of present-day Indian nationalists that Hindu-Moslem antagonism has been deliberately fomented by the British as a policy of "divide and rule" is emphatically rejected. "Britain did not light the fire, nor has she been doing the devil's work of stoking it."

The second part of the report, which is twice as long as the first, is a detailed study of Indian government and politics from 1936 to 1942. Here Professor Coupland has made an important contribution to the historical literature on India, based upon extensive research and personal conversations with officials, politicians, journalists and others during a visit which he made to India in 1941-42. In a series of chapters on the working in the several provinces of the new system of provincial self-government provided for by the Act of 1935 we are given the fullest account of this subject that can be found in any book yet published. The new provincial system is shown to have worked most satisfactorily (i. e., most nearly as the authors of the Act hoped that it would work) in the predominantly Moslem provinces of Bengal and the Punjab. In the seven provinces in which Congress ministries were in office from 1937 to 1939 important social reforms were accomplished in spite of Congress hostility to the new system;

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the Congress ministers proved to be capable men "with a high sense of public duty and responsibility", and the legislatures were well conducted and hard working. In the autumn of 1939 the Viceroy, Lord Linlithgow, paid a tribute to the manner in which the provinces in general had managed their affairs under the new constitution.

Encouraged by its electoral successes in the first provincial elections held under the new régime, Congress, claiming to be a national, not a party, organization, representing all communities and classes in India, attempted to absorb minority parties, especially the Moslem League. This produced a strong Moslem reaction against alleged Hindu tyranny and "atrocities", and in the spring of 1940 the League, under Mr. Jinnah's leadership, committed itself to the principle of "Pakistan", that is, the establishment of separate, sovereign Moslem states in those areas in which Moslems were in a majority. Moslems outside the League denounced the policy of partitioning India and repudiated the League's claim to speak for the Moslem community as a whole. Yet it was undeniable that "a very substantial section of Moslem opinion, headed by almost all the best-known figures in Moslem politics, had decided—irrevocably or not remained to be seen—that they would rather split India into several sovereign states than submit to a Hindu Raj." The Congress ministries came to an end in 1939 as a result of the war, but it was the general opinion, Professor Coupland says, that if they had lasted longer, "disorders would have broken out on an unprecedented scale."

The author was in India when the Cripps Mission arrived there in the spring of 1942 and accepted an invitation to join it. He has already brought out a book on the Mission and he devotes a chapter to it in the second part of his report. He brands as wholly untrue a charge made by Mr. Louis Fischer in *The Nation* of September 19 and 26, 1942, that Sir Stafford Cripps gave a promise to the Congress leaders regarding the nature of the National Government which it was proposed to set up in India and later withdrew it at the bidding of the British government.

In the third part of his report Professor Coupland turns from history to speculate about the future, to consider some of the ways in which the leading factors in the Indian constitutional problem might be dealt with. He sees little reason for optimism as to the solution of the problem in recent Indian history. Yet not seldom, as he remarks, has the very badness of a situation led to its remedy. Many countries will have difficult and grave constitutional problems to grapple with when the present war is over, but in none will their solu-

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tion call for greater wisdom and powers of statesmanship than in India.

In the course of his report the author had to deal with many highly controversial questions, and it was not to be expected that all of his opinions and judgments would command universal assent. Nor have they done so. No student of the Indian problem, however, is likely to question the value of the great mass of factual information and materials which Professor Coupland has presented, and few will doubt his word when he says that he has tried to state the facts with "the objectivity required of him by his calling."

ROBERT LIVINGSTON SCHUYLER

India Against the Storm. By POST WHEELER. New York, E. P. Dutton & Co., 1944.—vii, 350 pp. $3.50.

This is one of the most entertaining books on India since Katherine Mayo's *Mother India.* It contains not a single footnote to check the author's flights of imagination, is based largely on opinion and hearsay, and makes many statements which are either incorrect or so phrased as to create an erroneous impression. The author's perspective has been narrowed by his kindly reception at the hands of the Maharajas and British diplomats, and, consequently, he paints a vivid, if not objective, picture of India.

Gandhi is treated as a combination of saint and politician, with the latter in the ascendancy, and his *Satyagraha* movement deemed a failure because of its application "by a people destitute of its real spirit." The Moslems are represented as a unanimous whole opposed to the Indian National Congress which is characterized as a diminishing force. After quoting the Indian Government report about the Amritsar massacre that "Dyer had acted beyond necessity and reason and without proper humanity", the author tells of his conviction on "better testimony" that the speakers at the protest meeting were agitators, the audience armed with lathis, and Dyer, a much maligned man.

A definitely wrong impression is created by the statement: "Since 1918, the army has been increasingly officered by Indians." Statistics, not here given, indicate that between 1918 and 1926, only ten were commissioned each year and from then on, twenty, until 1932 when the number jumped to sixty, and that it was not until after the outbreak of the war that the annual figure showed a substantial increase. Most of these officers held subordinate rank. Before 1939 there does not appear to have been a single Indian colonel in the com-

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batant units. It is similarly unfair to note that there are eight Indians to every Englishman in the administrative services without explaining that most of these are clerks, that policy making in the provinces is largely in British hands, and that many regard the majority of Indian members on the Viceroy's Executive Council as not being representative Indians.

Stating in one paragraph that the British government's control over the native ruler is strictly limited, the author asserts, in the next, that when the native ruler "kicks over the traces . . . he is apt to spend his future leisure regretting it in a distant country", and cites, as an example, the trial of the predecessor of the Gaekwar of Baroda on a charge of attempting to poison the British Resident, when the Indian half of the court voted for acquittal, but the British half considered its votes sufficient to depose him.

The author does not inspire confidence when he couples the British achievement of building "79,000 miles of canals watering nearly 32 million acres in the largest irrigation system in the world", and of creating a vast network of railroads, with the statement that "England's *total* investment in India *today* is less than her investment in the single item of Argentine Railways", without the explanation that almost the whole of India's sterling debt of £348,700,000 was repatriated within the last three or four years.

Instead of emphasizing British efforts to remove the "stock iniquities" charged against them, i. e., debasing poverty, ruinous tariffs, one-sided civil service and an expensive army, the author places more reliance on Lord Halifax' statement: "It is fair to remember that the standards of administration of the eighteenth century were not those of the nineteenth nor were those in their turn the standards of the twentieth."

The author has done a service in high-lighting many little known facts, but it would take another book to answer all his innuendos.

ALBERT E. KANE

WASHINGTON, D. C.

Nusantara: A History of the East Indian Archipelago. By BERNARD H. M. VLEKKE. Cambridge, Harvard University Press, 1943.—xv, 439 pp. $5.00.

Nusantara—"The Empire of the Islands"—has been chosen as the title of this history of the Netherlands East Indies instead of "Insulinde", the title which the Dutch prefer. Dr. Vlekke's story of Holland's Far Eastern Empire is scholarly, interesting and fresh.

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It is, in fact, the only adequate history in English of the East Indian Archipelago, and as such its appearance at this time is of genuine value to the military service as well as to the academic world.

This review is being written from Ceylon, where evidences of the paternal rule of the sturdy Dutch are seen on every hand. In Java, and to a lesser extent in Sumatra and the Outer Islands, the mature results of Dutch colonial policy were evident. Although there is careful treatment of the ancient and medieval periods in some detail, with an excellent account of the rise and decay of the Javanese empire, the coming of Islam, and the Portuguese period, the emphasis is quite properly upon the three and a half centuries of the Dutch connection.

Thomas Stamford Raffles, the founder of Singapore, comes in for a critical appraisal. Dr. Vlekke concludes that Raffles has had a good press, and that his alleged reforms in the administration of Java were neither original nor as revolutionary as we have been led to believe. A faithful picture of eighteenth-century Batavia is offered. Plantation assistants in Java and Sumatra are still known to start work at 5:30 a. m. and work until 5 p. m. with a break of thirty minutes for breakfast and two hours for dinner (p. 168). One reads with interest of the capsizing in Dover of a Dutch ship en route to the Indies in 1598 (p. 96). The Dutch of the period were building large ships, but owing to the shallowness of Dutch coastal waters they were of shallow draught and consequently not always seaworthy. This factor contributed directly to the decline of Holland as a sea power. The careful treatment of the "culture system" in Java and of the public attitude toward it in Holland and in the Indies is a useful feature of the book. Many interesting sidelights are directed on the problem of Chinese penetration in Insulinde.

It may seem unkind to offer suggestions with respect to a work as comprehensive as this. Lake Tobi (p. 79) is more properly known as Lake Toba, and locally more commonly as the Toba Meer. The map on page 304 shows the Tenasserim coast of Burma as having become British in 1827. Its conquest occurred in 1824 and was confirmed by Treaty in 1826. Dutch and Javanese spellings are used rather frequently, as in the name of Yoshizava (p. 380), the Japanese representative in Java before Pearl Harbor. If a general criticism of so excellent a volume were called for, it would be that the emphasis is strongly upon European relations with the Netherlands Indies. This is almost inevitable in books written by Europeans. We should like to know more about the social, economic and cultural history of the people of Java and Sumatra, particularly during the

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current century. What can be said of the mental furnishings of the Javanese mind? What do they think of their European overlords? The Japanese have had contacts with Java and Sumatra for more than 300 years; what is the Javanese reaction to the Japanese? To the Chinese? What degree of success is likely to attend implementation of the declaration of Queen Wilhelmina on the organization of the post-war Netherlands Empire?

The final chapter, "War comes to the Indies", is worthy of praise for the accuracy of its account of the political and military steps by which the Japanese took over the Netherlands East Indies. One is forced to conclude that the naval and air record of the Allied performance in defense of the Indies is not particularly happy, despite efforts of the war correspondents to sink Japanese ships with their typewriters. There are nine sketch maps and thirteen illustrations, the latter so well chosen that they contribute much to the interest and value of the book. There is no bibliography, but the completeness of the documentation largely serves the same purpose.

The format of the volume is a credit both to the author and to the publishers. Let us hope that the author soon may be able to add a chapter on the expulsion of the Japanese. Incidentally, he lays the ghost of rumor that large numbers of Javanese assisted the Japanese in the invasion.

JOHN L. CHRISTIAN

KANDY, CEYLON

The Use of Presidential Power, 1789-1943. By GEORGE FORT MILTON. Boston, Little, Brown and Company, 1944.—xiii, 349 pp. $3.00.

Mr. Milton has selected an excellent and timely theme. The American presidency is a unique office whose powers and limits, little appreciated abroad, are hardly understood at home; and William Allen White has suggested that "the devil himself must have invented" it. Each of the six major jobs, for the successful performance of which the president is held to account, might alone be the subject of analysis and exposition on the scale of the present work. From the nature of the Constitution, its mandates and its inevitable implications, the president derives his functions: as chief of state, as chief of foreign relations, as commander in chief of the armed forces, as executive of a huge and complicated human institution, as chief of party, and as guide to a people operating "a government of public opinion". His inclusive responsibility is such that no one of these

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functions can be long or completely delegated. The position of each of his assistants is inherently subordinate; so subordinate, indeed, that any expectation of filling them with the "best brains" is reduced to the level of an "iridescent dream".

It is perhaps captious to quarrel with the author's statement that "thirty-two men have taken the presidential oath"; yet he must count Cleveland twice to reach that total, while the inaugural medal of 1933 describes Franklin D. Roosevelt as the thirty-first President. But there can be no disagreement with the intelligent selection by which, from the thirty-one, eight have been picked out as incumbents in whose hands the powers of the office have been unfolded to cover the requirements of the position: Washington, Jefferson, Jackson, Lincoln, Cleveland, Wilson, and the two Roosevelts.

In his running justification of the selection, Mr. Milton has touched upon the whole of our political history; concentrating upon the periods of the great executives, and tending to emphasize their importance by a certain depreciation of the intervening twenty-three. He makes a case for the magnitude and elasticity of the office, and upon the duty of the incumbent not to let the nation down merely because of twilight zones. His narrative is light, sometimes journalistic, sometimes less than accurate in the periods which are not the decades of his great, specialized learning. He makes much of the emergency as compelling the use of power; much of the temperament of the man. But he almost entirely neglects that mechanical limitation which may, and often does, prevent even the ablest of presidents from a proper fulfillment of the duties of the office.

No president can be sure of doing his best in the performance of his six great jobs unless he can control his party and lead his people. His leadership is margined by his powers. But his people, under forces which no leader can control, may change their mind without removing the president from office, and may set up sabotage to wreck him. Within the recollection of Mr. Milton, four presidents, Cleveland and Taft, Hoover and Wilson, have come to political disaster through the partisanship of a Congress on "dead center", with one or both houses controlled by the party of the opposition. This is a mechanical check, built into the Constitution to be a check, invariably bringing about a shading of duty for the sake of politics, and capable one day of wrecking the United States. Its bearing on the ability of presidents and the use of presidential power is too important to have been overlooked.

FREDERIC L. PAXSON

UNIVERSITY OF CALIFORNIA

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The Development of Modern Italy. By CECIL J. S. SPRIGGE. New Haven, Yale University Press, 1944.—216 pp. $2.75.

The notice on the jacket of this book tells us that Mr. Sprigge is eminently qualified to write a "conscientious diagnosis" of the Italian situation because of his long residence in Italy as correspondent of the *Manchester Guardian.* Mr. Sprigge himself describes his approach as one of concern primarily with the future of Anglo-Italian relations, an important issue but a severe limitation of treatment.

One therefore approaches the book with certain misgivings. It is all the more pleasant to find one's apprehensions unfounded. This is not just another book, of which there is a plethora, in the "what-to-do-with" category. What the author does is of more lasting value, for he has written an interpretative study of Italian history during the century between Napoleon and Mussolini; he does not attempt to carry the story beyond the advent of the Fascist régime. If a knowledge of history has value for the conduct of our present affairs (a debatable thesis, to be sure), this is a good example of how history should be written. One can only wish that more books of this kind issued from the pens of professional historians.

Mr. Sprigge's thesis is that the coming of fascism in Italy was, if not an inevitable development, at least the natural outcome of the situation which had developed during the preceding hundred years, especially during the aftermath of unification. For this unification was the result of two forces which, while working to a common end, remained in essence antagonistic and irreconcilable. As he puts it, "the fact was that although Mazzini as the apostle of Italian ideals had played a quite indispensable part in overthrowing the old Italian régimes it was to Cavour's astuteness, and not to Mazzini's revivalism, that Europe had ultimately accorded recognition" (p. 55). But Mazzini was never reconciled to a unification which made Italy an extension of Piedmont, to its centralized system of government, its constitution, and its laws.

The result was that, after Rome had become the capital, Italian political life, in the hands of smaller men than Cavour, became an uninspired and uninspiring "dominion of dryasdust". *Transformismo* was the euphemism devised to cover this state of affairs, when "governments find their majorities for national policies by conceding what deputies come and beg for on behalf of their constituencies" (p. 49). After the "reign" of the erratic Crispi, Giolitti developed this system into an even finer art. Of Giolitti, the author gives an excellent

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characterization and appraisal. "Giolitti did not trouble much to explore and expound the merits of democracy: he was satisfied with feeling convinced of their inevitability" (p. 79), and "he dismissed faith and enthusiasm as a psychological compensation which those too immature for practical politics conjured up out of the exuberance of their own fancies" (p. 89).

With the beginning of the present century, a certain *malaise* came to be felt increasingly in Italian political life: a revived nationalism, futurism, d'Annunzio's appeal, were, among others, its manifestations. The war—entered into with narrow aims and purposes by the government and supported by forces as divergent as those which Mazzini and Cavour had earlier typified—and the disillusioning aftermath, instead of reconciling the conflicts, brought them out in sharper contrast. Giolitti's pedestrian practicalness was not capable of dealing with these imponderables and his last attempt at governing was a failure. In the vacuum that was left, fascism stepped in with remarkably little opposition.

This is, of course, an interpretation with which many will not agree. Interesting comparisons suggest themselves with the period of the Third Republic in France. The picture of Italian politics between 1871 and 1915 should be contrasted with that given in Croce's *Storia d'Italia dal 1871 al 1915*.

Here and there one may take exception to specific details, such as the rather overkind treatment of Nitti's activity. But, in any event, it is a picture presented with skill and remarkable clarity of organization. Altogether, this is an excellent and stimulating treatment that can be highly recommended.

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